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, 2008

MISSION STATEMENT

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

- To prudently invest System assets in a well diversified manner to optimize long-term returns, while controlling risk through excellence in execution of the investment objectives and strategies of the System.

- To effectively communicate with all retirement plan participants to inform them about the benefits provided by the System, and to educate them about planning and preparing for all aspects of their future retirement.

- To accurately and timely pay retirement allowances provided by State pension law to the System's retirees and their beneficiaries.

- To implement an automated, comprehensive and integrated pension administration and electronic document management system.

- To efficiently collect the required employer and member contributions necessary to fund the System.

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, 2008

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

Introductory Section:

Financial Section:

Investment 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
TDD/TTY 410-625-5535
www.sra.state.md.us

December 16, 2008

Dear Members, Retirees and Beneficiaries:

On behalf of the Board of Trustees for the State Retirement and Pension System, we are pleased to present the System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. This report provides information on the financial status of the retirement system and highlights certain changes that have occurred over the course of the year.

The Board's fundamental purpose is to ensure that the System is well funded, effectively administered, and as a result, provides your promised benefits in an accurate and timely manner. Yours is a retirement system that remains administratively and financially strong. As a participant in the System, you can remain confident that your pension benefits are secure and that the services you require, either before or during your retirement, will be effectively delivered.

Largely due the decline in the domestic housing market and its effects spreading to the international markets, the System's investment portfolio witnessed an overall negative return of 5.4 percent. It should be emphasized, however, that this follows four straight years of very strong, positive returns, and is but the third time in the past 20 years that a negative one-year return has been experienced.

Last year, we announced the establishment an emerging manager program, designed to diversify the System's manager base, generate strong returns and provide robust risk management. We are very pleased that despite market challenges, this program performed well in fiscal 2008, outperforming its benchmark by over four percentage points.

Another significant development has been the Board's adjustments to the System's asset allocation. These adjustments included reductions in the target allocations for domestic equities and fixed income combined with increases in target allocations for international and global equities, as well as private equity, real estate, real return and absolute return. As always, the Board of Trustees continues to work diligently to ensure that the System's portfolio reflects market opportunities while maintaining an appropriate level of risk.

In April, the Board was very pleased to appoint Mansco Perry, III to the position of Chief Investment Officer (CIO) for the System. Mr. Perry comes to Maryland after having served for 10 years as Deputy CIO for the Minnesota State Investment Board, and brings an outstanding record of successful and prudent investment management. We are confident that with his breadth of knowledge, analytical and management skill, and experience across all asset classes, Mr. Perry will guide our System's investment program successfully.

Significant progress continues to be made in the development of the Maryland Pension Administration System (MPAS-1) project to replace the Legacy Pension System (LPS). The new custom-developed system will perform the same functions as the LPS, but with a modern technology architecture that can be more easily maintained and enhanced. This updated information technology will ensure that the Retirement Agency's business operations maintain optimal efficiency. The new system is scheduled for implementation in July 2010.

We are also very pleased that Governor Martin O'Malley has appointed a new Trustee, David S. Blitzstein who serves as Special Assistant for Multiemployer Plans for the United Food & Commercial Workers International Union (UFCW) and as a trustee with several pension funds. Mr. Blitzstein's extensive pension knowledge and experience is a welcomed asset to the Board of Trustees.

As always, your support and participation are greatly appreciated. Please do not hesitate to contact us with questions, or if we can be of assistance.

Sincerely,

Nancy K. Kopp

NANCY K. KOPP
Chairman

Peter Franchot

PETER FRANCHOT
Vice Chairman

STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

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LETTER OF TRANSMITTAL

December 16, 2008

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, 2008. We believe this report fairly presents the operating results achieved during this 12-month reporting period.

The System is responsible for properly administering retirement, disability, and death benefits. At the same time, it strives to keep employer contribution rates as reasonable as possible by maximizing investment returns while 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.

The System currently provides monthly allowances to more than 112,000 retirees and beneficiaries, and is an essential element of the future financial security for over 199,000 active participating members. Descriptions of the membership requirements and benefits provided by each plan administered by the System are included in the Plan Summary Section starting on page 100.

This Comprehensive Annual Financial Report contains six sections. The Introductory Section provides information about the administrative structure of the System. The Financial Section provides a comprehensive review of the System's financial position, the results of its operations and its funded status. The Financial Section also contains the report from the System's independent auditor, the combined financial statements and supplementary financial data thereto. The Investment Section includes a report highlighting the System's investment performance in addition to various summary level portfolio compositions and other investment data. The Actuarial Section contains the independent actuary's report on the results of the System's annual actuarial valuation. The Statistical and Plan Summary Sections provide demographic composition of the System's membership segments affected by each plan and detailed descriptions of the various plans' provisions. In addition to this Letter of Transmittal, additional narrative, overview, and analysis can be found in Management's Discussion and Analysis beginning on page 17.

INVESTMENTS

In May, 2008, Mansco Perry III, CFA commenced service as the System's new Chief Investment Officer (CIO). Mr. Perry is an experienced investor and manager, having served most recently as Assistant Executive Director and Deputy Chief Investment Officer for the Minnesota State Board of Investment.

Fiscal Year 2008 is best characterized by the significant losses in the equity markets, and to a lesser degree, the real estate market. Consequently, the System's total assets under management decreased from $39.4 billion to $36.6 billion, a $2.8 billion decrease. Fund investments returned a 5.4% loss in fiscal year 2008, falling below the System's actuarially determined target investment return of 7.75%, net of expenses.

The System's asset allocation as of the end of fiscal year 2008 was 35.2% U.S. equities, 15.4% international equities, 10.5% global equities, 1.7% private equities, 24.4% fixed income, 6.5% real estate, 4.2% real return, and 2.2% opportunity allocation. The System's investment outlook is long term allowing the portfolio to take advantage of the favorable risk-return characteristics of equities by placing more emphasis on this category. The portfolio is broadly diversified among equities, fixed income, real estate, and private equities with additional diversification achieved through domestic and international investing.

MAJOR ISSUES AND INITIATIVES

Despite the recent economic events and market volatility, the System is financially sound and committed to its long term funding goals. However, the Board continues to be deeply concerned with the methodology used to calculate annual contributions to the trust fund and remains committed to its recommendation to change this funding method known as the Corridor Method. 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 each of these systems remain in a "corridor" of 90% to 110%. As a result of the investment losses experienced during fiscal year 2008 and the impact of corridor funding on the contributions coming in, the System's funded ratio decreased from 80.36% to 78.62%.

As part of an ongoing strategy to increase asset diversification, during the fiscal year, the Board of Trustees, in conjunction with its staff and the System's general investment consultant Ennis Knupp, made a number of changes to the System's asset allocation, including increasing the allocation to the private equity, real estate, global equity and real return asset classes and decreasing the allocation to U.S. equity and fixed income. Additionally, during the fiscal year, the Board approved an increase in the allocation to the System's emerging manager program and has subsequently added six new program managers for a total of seven managers and renamed the program, the Terra Maria program. Further discussion regarding these major initiatives in the investment area can be found in the Chief Investment Officer's letter located in the Investment Section of this report.

In the benefits administration area, the Agency continues working with the legislature to simplify existing pension law and initiated an employer payroll reporting education and training program. The Agency continues its development of the Maryland Pension Administration System (MPAS) project. MPAS is being developed in phases. The goal of the first phase is to create new, agile technology architecture as a platform for future improvements. Completion of the first phase is scheduled for July 2010.

FINANCIAL INFORMATION

System management has committed the resources necessary to maintain an internal control structure that provides reasonable assurance that assets are adequately safeguarded, financial records are consistently and accurately maintained, and transactions are properly executed to permit preparation of financial statements in accordance with generally accepted accounting principles. The System's internal control structure includes written policies and procedures and an internal audit division that reports to the Board.

ACCOUNTING SYSTEM AND REPORTS

The System reports its transactions on the accrual basis of accounting. Under this method, revenues are reported in the accounting period 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 2008, investment losses were $2.1 billion, while revenues from employer and member contributions were $1.05 billion and $420 million, respectively. For fiscal year 2008, member contribution rates increased from 3% to 4%, 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. Payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during 2008, totaling $2.14 billion. Of this amount, the System disbursed $2.12 billion as retirement allowances to members and beneficiaries. In addition, the System disbursed $189.5 million to manage the investment portfolio and to administer the System, of which $166.4 million was paid for investment management, portfolio custody, and securities lending services and $23.1 million were used to fund the System's administrative operations.

FUNDING

Funds are derived from the excess of additions, which include contributions and investment earnings, over deductions, which are comprised of benefits and administrative expenses. Funds are accumulated to meet future benefit obligations to retirees and beneficiaries. This accumulated balance is referred to as the "net assets held in trust for pension benefits" in the Statement of Pension Net Assets in the Financial Section of this report. The actuarial accrued liability is not disclosed in the basic financial statement but is disclosed in note nine to the basic financial statements. The funded status schedule in note nine shows the actuarial value of assets, which is based on a five-year smoothed expected rate of return, wherein the excess or shortfall of investment income over or under the actuarial assumed income of 7.75% is recognized over a five-year period. This is the value of assets used by the actuary in determining contribution rates for the Systems as disclosed in note four to the basic financial statements.

The actuarial accrued liability of the Systems is determined by the actuary. It is a measure of the present value of actuarial accrued liabilities estimated to be payable in the future to current retirees, beneficiaries and employees for service earned to date. The percentage computed by dividing the actuarial value of net assets available for benefits by the actuarial accrued liability is generally referred to as the “funded ratio”. This ratio provides an indication of the funded status of the System on a going-concern basis and generally, the greater this percentage, the stronger the system.

At June 30, 2008, the System’s actuarial accrued liability was $50.2 billion and the unfunded actuarial accrued liability totaled $10.7 billion, resulting in a funded status ratio of 78.62%. The portion of the unfunded actuarial accrued liability that existed at June 30, 2000 will continue to be amortized over the remaining 12-year period to June 30, 2020, whereas each subsequent annual liability layer will be amortized over a 25 year period.

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. Actuarial services were provided by Cheiron and independent financial statement audit services were provided by Abrams, Foster, Nole & Williams, PA. The System’s asset custody and portfolio accounting services were provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. Ennis Knupp & Associates serves as the System’s general investment consultant. Specialty consulting services are provided by Altius Associates Limited and Pension Consulting Alliance Real Estate Advisors, Inc. for private equity and real estate, respectively. A complete listing of the System’s professional consultants and external investment advisors is presented on page 11.

AWARDS

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, 2007. This was the nineteenth consecutive year (1989 through 2007) 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.

Additionally, the Maryland Retirement and Pension System received the Public Pension Coordinating Council’s (PPCC) 2008 Recognition Award for Administration, in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

The PPCC is a coalition of the following associations that represent public pension funds that cover the vast majority of public employees in the U.S.:

- National Association of State Retirement Administrators (NASRA)
- National Council on Teacher Retirement (NCTR)
- National Conference on Public Employee Retirement Systems (NCPERS)

The Public Pension Standards are intended to reflect minimum expectations for public retirement systems management and administration, and serve as a benchmark by which all defined benefit public plans should be measured. The State Retirement and Pension System of Maryland is proud to be a recipient of this prestigious award.

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, the System’s staff, the Board’s advisors and the many people who worked so hard to make fiscal year 2008 a success.

R. Dean Kenderdine
Interim Executive Director &
Secretary of Board of Directors

Melody Countess, CPA
Acting Chief Financial Officer

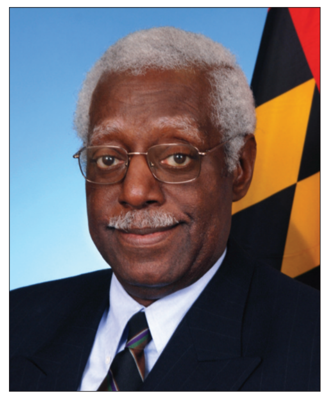
BOARD OF TRUSTEES

Nancy K. Kopp, *Chairman*
State Treasurer
Ex Officio since February 14, 2002
Member, Investment Committee
Member, Administrative Committee
Member, Audit Committee
Member, Corporate Governance Subcommittee

Peter Franchot, *Vice Chairman*
State Comptroller
Ex Officio since January 22, 2007
Member, Investment Committee
Member, Corporate Governance Subcommittee

David S. Blitzstein
April 3, 2008 – July 31, 2012
Member, Investment Committee
Member, Corporate Governance Subcommittee

William D. Brown
August 1, 1997 – July 31, 2009
Vice Chair, Investment Committee
Member, Corporate Governance Subcommittee



John W. Douglass
May 18, 2004 – July 31, 2011
Member, Administrative Committee
Vice Chairman, Audit Committee

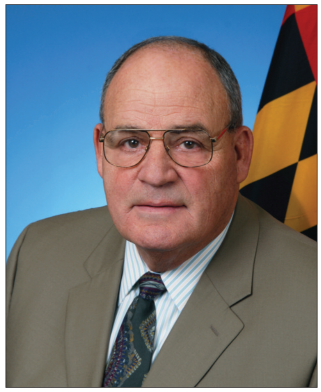
Eloise Foster
Ex Officio since January 17, 2007
Member, Administrative Committee
Member, Investment Committee

James M. Harkins
July 1, 2006 - June 30, 2010
Chairman, Administative Committee

Sheila Hill
October 19, 2004 – July 31, 2009
Member, Administrative Committee
Member, Investment Committee
Chairman, Corporate Governance Subcommittee

BOARD OF TRUSTEES

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



Major Morris L. Krome
August 1, 1998 – July 31, 2010
Vice Chairman, Administrative Committee
Member, Audit Committee
Member, Investment Committee
Chairman, Real Estate Subcommittee

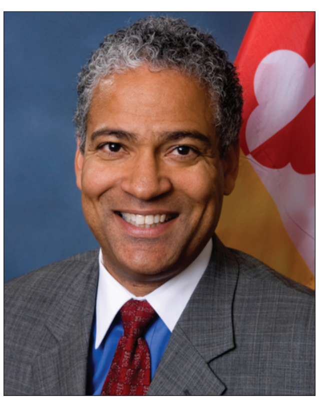
Theresa Lochte
August 1, 2007 – July 31, 2011
Member, Administrative Committee
Member, Audit Committee

Robert W. Schaefer
August 1, 2007 – July 31, 2011
Chairman, Investment Committee

Harold Zirkin
September 10, 2007 - July 31, 2011
Member, Investment Committee
Member, Real Estate Subcommittee

Thurman Zollicoffer, Jr.
September 12, 2007 - July 31, 2011
Member, Audit Committee
Member, Investment Committee
Member, Corporate Governance Subcommittee

ADVISORS TO THE INVESTMENT COMMITTEE



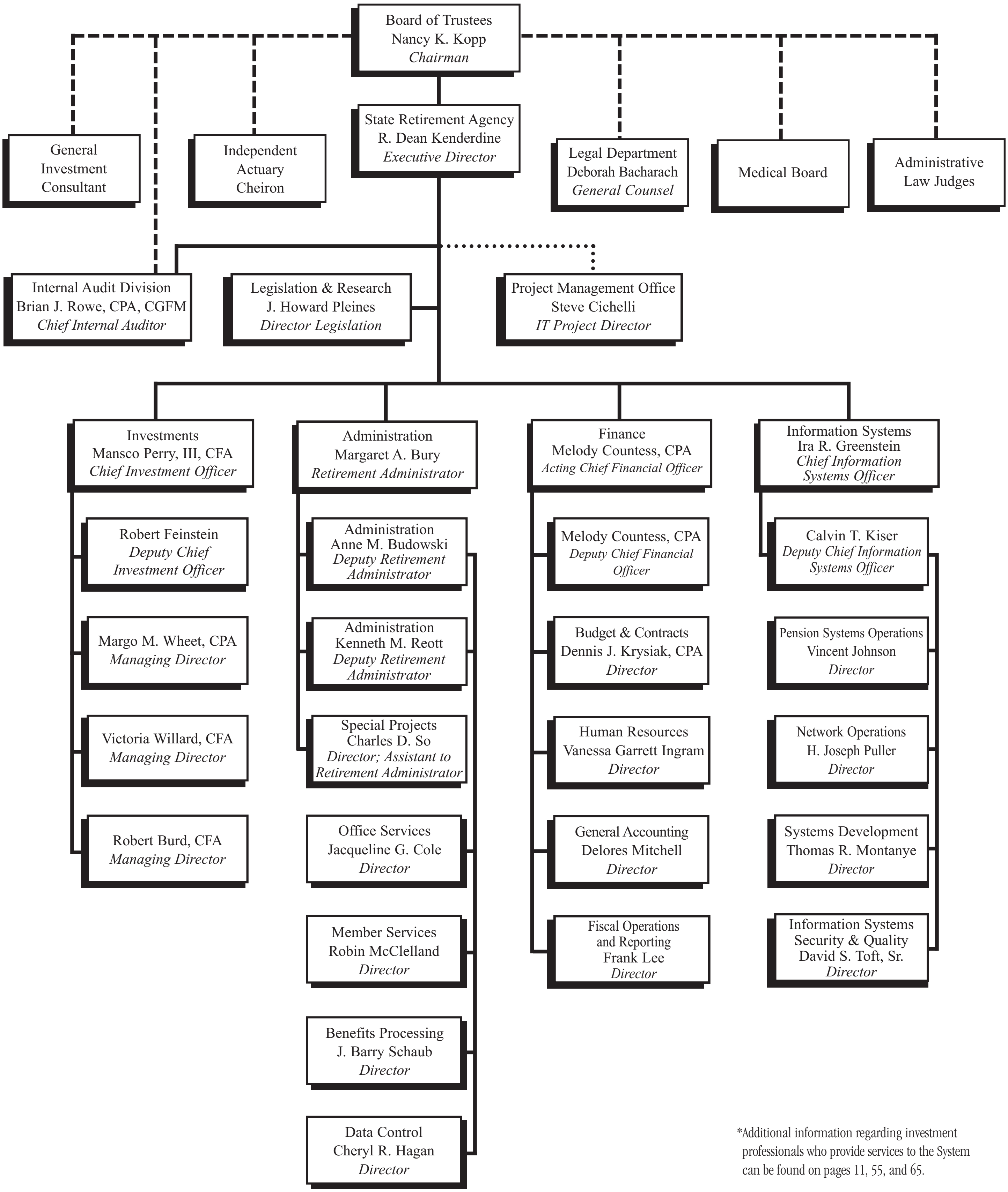
Larry E. Jennings, Jr.

Wayne H. Shaner

Brian B. Topping

ORGANIZATIONAL CHART

(November, 2008)



*Additional information regarding investment professionals who provide services to the System can be found on pages 11, 55, and 65.

PROFESSIONAL SERVICES

Asset & Income Verification Services

Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

Global Custodial Bank &
Security Lending

State Street Bank and Trust Company
Boston, Massachusetts

Hearing Officers

Office of Administrative Hearings
Baltimore, Maryland

Independent Actuary

Cheiron Inc.
McLean, Virginia

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

System Development

Saber Software Corp.
Portland, Oregon

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, 2008

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

Public Pension Coordinating Council

Recognition Award for Administration 2008

Presented to

State Retirement and Pension System of Maryland

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

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Financial Section

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 years ended June 30, 2008 and 2007, 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.

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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Retirement and Pension System of Maryland as of June 30, 2008 and 2007, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were 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
Baltimore, Maryland

November 18, 2008

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, 2008, the results of its operations for the fiscal year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the System's audited financial statements and, as such should be read in conjunction with these statements, which are presented beginning on page 22.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Finally, the note disclosures are provided as an integral component of the financial statements to help explain in narrative form some of the more complex or less obvious elements of the statements. Further, the notes to the financial statements provide additional information (e.g., significant accounting policies, 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.

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.

Fiscal Year 2008 compared to 2007

The following Condensed Comparative Statement of Net Assets for the fiscal years ended June 30, 2008 and 2007 indicates a decrease of $2,831 million (-7.2%) in total net assets. This decrease is primarily attributable to poor performance of the domestic securities markets for most of Fiscal Year 2008. Domestic equity and corporate obligations experienced notable decreases in these asset classes due to the poor performance of the equity and debt markets. Alternative investments' strong performance along with additional investments during fiscal year 2008 drove the increase in this asset class. Please refer to the Investment Section for additional information on our investment activities in 2008.

A schedule of the System's investments and changes (by type) from fiscal year 2007 to 2008 is as follows (*expressed in millions*):

	June 30,		Change	
	2008	**2007**	**Amount**	**%**
Cash & cash equivalents	$ 1,737.6	$ 1,530.4	$ 207.2	13.5%
U.S. Government obligations	1,080.0	1,302.4	(222.4)	-17.1%
Domestic corporate obligations	6,893.3	8,426.1	(1,532.8)	-18.2%
International obligations	327.6	181.7	145.9	80.3%
Domestic stocks	14,424.5	16,921.5	(2,497.0)	-14.8%
International stocks	8,555.3	8,114.5	440.8	5.4%
Mortgages & mortgage related securities	2,218.8	2,752.7	(533.9)	-19.4%
Real estate	505.9	893.8	(387.9)	-43.4%
Alternative investments	2,164.1	476.6	1,687.5	354.1%
Total managed investments	37,907.1	40,599.7	(2,692.6)	-6.6%
Collateral for loaned securities	1,826.5	1,897.3	(70.8)	-3.7%
Total investments and cash & cash equivalents	39,733.6	42,497.0	(2,763.4)	-6.5%
Receivables	873.4	712.9	160.5	22.5%
Total Assets	40,607.0	43,209.9	(2,602.9)	-6.0%
Liabilities	3,993.3	3,765.1	228.2	6.1%
Total Net Assets, End of Year	$36,613.7	$39,444.8	$(2,831.1)	-7.2%

As depicted in the following Comparative Statement of Changes in Net Assets for fiscal years ended June 30, 2007 and 2008, contributions collected by the System increased considerably for fiscal year 2008, primarily due to a mandated increase in member contribution rates in the Employees' and Teachers' Retirement Enhancement Act of 2006. Declining financial markets significantly affected most of the economic sectors in which the System held investments during fiscal year 2008 producing a negative return of 5.4%. As a result, the System experienced a $2.1 billion net investment loss. Additionally, the System's continuance to pay out more in benefits than collected in contributions coupled with an increase of $156.6 million in benefits paid to retirees resulted in a 7.8% increase in total deductions during fiscal year 2008. The net investment loss, when coupled with a $691.3 million excess of benefits, refunds, and administrative expenses incurred over employer and member contributions collected, resulted in a $2.8 billion reduction in System net assets for fiscal year 2008.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2007 to 2008 is as follows (*expressed in millions*):

	June 30,		Change	
	2008	**2007**	**Amount**	**%**
Employer contributions	$ 443.2	$ 358.4	$ 84.8	23.7%
Member contributions	420.5	319.3	101.2	31.7%
Other & contribution interest	604.8	475.3	129.5	27.2%
Net investment income (loss)	(2,139.7)	5,924.1	(8,063.8)	-136.1%
Total additions	(671.2)	7,077.1	(7,748.3)	-109.5%
Benefit payments	2,120.5	1,965.9	154.6	7.9%
Refunds	16.2	16.0	0.2	1.3%
Administrative expenses	23.1	21.3	1.8	8.5%
Total deductions	2,159.8	2,003.2	156.6	7.8%
Net increase (decrease) in plan net assets	$(2,831.0)	$5,073.9	$(7,904.9)	-155.8%

Fiscal Year 2007 compared to 2006

The System's net assets at the end of 2007 increased by $5 billion (14.8%) from the prior year's Net Asset balance. The overall increase was primarily attributable to a 15% increase in the fair value of managed assets, which experienced strong returns during fiscal year 2007 in most asset classes. Domestic corporate obligations, mortgages & mortgage related securities along with U.S. government obligations experienced notable shifts in these asset classes due to the investment strategy of the external investment managers. Alternative investments' strong performance along with additional investments during fiscal year 2007 drove the increase in this asset class. This increase, along with a decrease in investment commitment payable at the end of the year accounted for the total growth in net assets from $34.4 billion at the end of fiscal year 2006 to $39.4 billion at the end of fiscal year 2007.

A schedule of the System's investments and changes (by type) from fiscal year 2006 to 2007 is as follows (*expressed in millions*):

	June 30,		Change	
	2007	**2006**	**Amount**	**%**
Cash & cash equivalents	$ 1,530.4	$ 1,417.8	$ 112.6	7.9%
U.S. Government obligations	1,302.4	1,666.6	(364.2)	-21.9%
Domestic corporate obligations	8,426.1	6,721.9	1,704.2	25.4%
International obligations	181.7	190.4	(8.7)	-4.6%
Domestic stocks	16,921.5	15,013.9	1,907.6	12.7%
International stocks	8,114.5	7,020.2	1,094.3	15.6%
Mortgages & mortgage related securities	2,752.7	2,143.9	608.8	28.4%
Real estate	893.8	836.4	57.4	6.9%
Alternative investments	476.6	287.3	189.3	65.9%
Total managed investments	40,599.7	35,298.4	5,301.3	15.0%
Collateral for loaned securities	1,897.3	2,148.7	(251.4)	-11.7%
Total investments and cash & cash equivalents	42,497.0	37,447.1	5,049.9	13.5%
Receivables	712.9	713.6	(0.7)	-0.1%
Total Assets	43,209.9	38,160.7	5,049.2	13.2%
Liabilities	3,765.1	3,789.9	(24.8)	-0.7%
Total net assets	$39,444.8	$34,370.8	$5,074.0	14.8%

The increase to System additions in fiscal year 2007 was primarily driven by an increase in member contributions related to enhancements to the Employees' and Teachers' pension plans. Additionally the System experienced a positive investment return of 17.6%, an increase from fiscal year 2006. The fund continued to pay out more in benefits than it collected in contributions and that, coupled with an increase of $136.4 million in benefits paid to retirees, also partly due to the Employees' and Teachers' pension plan enhancement, negated a portion of the investment gain enjoyed by the System in fiscal year 2007.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2006 to 2007 is as follows (*expressed in millions*):

	June 30,		Change	
	2007	**2006**	**Amount**	**%**
Employer contributions	$ 358.4	$ 285.3	$ 73.1	25.6%
Member contributions	319.3	215.1	104.2	48.4%
Other & contribution interest	475.3	435.6	39.7	9.1%
Net investment income	5,924.1	3,225.6	2,698.5	83.7%
Total additions	7,077.1	4,161.6	2,915.5	70.1%
Benefit payments	1,965.9	1,829.5	136.4	7.5%
Refunds	16.0	16.4	(0.4)	-2.4%
Administrative expenses	21.3	18.6	2.7	14.5%
Total deductions	2,003.2	1,864.5	138.7	7.4%
Net increase (decrease) in plan net assets	$5,073.9	$2,297.1	$2,776.8	120.9%

ANALYSIS OF FUNDED STATUS

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. The most recent available valuation showed the funded status of the System at June 30, 2008 decreased to 78.62% from 80.36% at June 30, 2007. The decrease was caused by investment losses and an increase in the System's actuarial accrued liabilities.

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, in which fluctuations in the market are expected. The more critical factor is that the System be able to meet the current actuarial assumed rate of return of 7.75%. A schedule of funding progress presenting multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits can be found on page 37. Additional information on the plan's funding progress is also presented in the Actuarial Section of this CAFR.

OTHER SIGNIFICANT MATTERS

During 2008, financial markets as a whole incurred significant declines in values. As of November 18, 2008, the Plan's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements; however, it should be noted that the recent market events did not result in any material permanent impairment to the System and because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Plan will recognize in its future financial statements, if any, cannot be determined.

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, CPA
120 E. Baltimore Street, Suite 1601
Baltimore, Maryland 21202-1600

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATEMENTS OF PLAN NET ASSETS
As of June 30, 2008 and 2007
(Expressed in Thousands)

	2008	2007
Assets:		
Cash & cash equivalents (note 3)	$ 1,737,586	$ 1,530,437
Receivables:		
Contributions:		
Employers	10,177	8,614
Employers – long term (note 5)	54,222	56,868
Members	1,800	1,446
Accrued investment income	61,272	77,786
Investment sales proceeds	745,894	568,178
Total receivables	873,365	712,892
Investments, at fair value (notes 2 & 3):		
U.S. Government obligations	1,080,016	1,302,383
Domestic corporate obligations	6,893,322	8,426,134
International obligations	327,628	181,671
Domestic stocks	14,424,483	16,921,471
International stocks	8,555,256	8,114,497
Mortgages & mortgage related securities	2,218,785	2,752,682
Real estate	505,885	893,832
Alternative investments	2,164,142	476,589
Collateral for loaned securities	1,826,516	1,897,331
Total investments	37,996,033	40,966,590
Total assets	40,606,984	43,209,919
Liabilities:		
Accounts payable & accrued expenses (note 7)	41,726	38,628
Investment commitments payable	2,123,389	1,827,617
Obligation for collateral for loaned securities	1,826,516	1,897,331
Other liabilities	1,643	1,562
Total liabilities	3,993,274	3,765,138
Net assets held in trust for pension benefits	$36,613,710	$39,444,781

(A schedule of funding progress is presented on page 37)

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

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATEMENTS OF CHANGES IN PLAN NET ASSETS
for the Fiscal Years Ended June 30, 2008 and 2007

(Expressed in Thousands)

	2008	2007
Additions:		
Contributions (note 4)**:**		
Employers	$ 443,207	$358,417
Members	420,461	319,274
Other	598,575	471,366
Contribution interest (note 5)	6,181	3,999
Total contributions	1,468,424	1,153,056
Investment income:		
Net appreciation in fair value of investments	(2,666,856)	5,408,216
Interest	340,628	344,052
Dividends	237,938	211,887
Real estate operating net income	25,096	30,806
Income before securities lending activity	(2,063,194)	5,994,961
Gross income from securities lending activity	89,962	104,087
Securities lending borrower rebates	(70,077)	(98,067)
Securities lending agent fees	(3,256)	(946)
Net income from securities lending activity	16,629	5,074
Total investment income	(2,046,565)	6,000,035
Investment expenses (note 2E)	(93,097)	(75,965)
Net investment income	(2,139,662)	5,924,070
Total additions	(671,238)	7,077,126
Deductions:		
Benefit payments	2,120,463	1,965,872
Refunds (note 6)	16,223	16,021
Administrative expenses (note 2E)	23,147	21,271
Total deductions	2,159,833	2,003,164
Net increase(decrease) in plan assets	(2,831,071)	5,073,962
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	39,444,781	34,370,819
End of the fiscal year	$36,613,710	$39,444,781

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"). 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 System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool." The "State Pool" consists of State agencies, boards of education, community colleges and libraries. The "Municipal Pool" consists of participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus, participating governmental units that elect to join the System (the "Municipal Pool") cost-share in the liabilities of the Municipal Pool only.

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 is comprised of 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, more than 100 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 firefighters 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 firefighters 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, 2008, with comparative 2007 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	22,818	54,035	69,783	36,178	105,961
Employees' Retirement & Pension Systems	28,725	54,920	59,247	29,955	89,202
Judges' Retirement System	8	342	286	-	286
State Police Retirement System	61	2,149	989	437	1,426
Local Fire and Police System	9	18	43	10	53
Law Enforcement Officers' Pension System	174	958	1,577	750	2,327
Totals as of June 30, 2008	51,795	112,422	131,925	67,330	199,255
Totals as of June 30, 2007	52,027	108,355	139,349	56,913	196,262

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 compensation (AFC) and the actual number of years of accumulated creditable service. Pension allowances are computed using both the highest three consecutive years' AFC 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 (1.81%) of the member's AFC 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 AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, 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 AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC 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. On April 25, 2006, new legislation was enacted with an effective date of July 1, 2006, that enhanced the pension benefits for active members, as of June 30, 2006, of the Pension System. According to the State Employees' and Teachers' Retirement Enhancement Benefit Act of 2006, the annual service retirement allowance remains equal to 1.2% of average final compensation times service credit to June 30, 1998 and increases to 1.8% of average final compensation times service credit from July 1, 1998 forward.

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 AFC multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFC.

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 AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/100 (1.0%) of the member's AFC 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 AFC 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 AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/100 (1.0%) of the member's AFC 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 AFC up to the SSIL, plus 1.5% of the member's AFC 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. Legislators become eligible for a vested retirement allowance upon accumulating 8 years of eligibility service. 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 percent. 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 AFC. 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 AFC 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. Employer and Member contributions are recognized in the period when due, pursuant to statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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 were invested in non-dividend paying common stocks during the fiscal year. Effective July 1, 2008, this limitation was eliminated by the Board of Trustees. Additionally, 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 during the fiscal year.

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 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 (generally the last available independently audited Financial Statements adjusted for cash flows). Investment amounts presented in the Statement 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 pages 40 and 41 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2008 and 2007, 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.

G. New Pronouncements

In May 2007 the Governmental Accounting Standards Board (GASB) issued Statement No. 50, Pension Disclosures – an amendment to Statements No. 25 and No. 27. This Statement enhances information disclosed in notes to the financial statement or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. Statement No. 50 is effective for the System's 2008 fiscal year. Implementation can be found in Note 8.

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 5% target and employs a consultant to advise them on selecting partnerships.
- Real Estate Program – The System currently has a 10% target for the total Real Estate Program which includes the following: Real Estate Investment Trusts (REITS) – The System employs investment managers specializing in both

Domestic and Global REITS: Directly Owned Real Estate – Affords the System greater control over the portfolio composition and geographic diversity; Private Real Estate Funds – The System employs a consultant to advise them on fund selecting.

- 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 and other Derivatives - The System may employ financial futures and other derivatives that are traded on a recognized exchange. Allowable instruments will include, but will not be limited to: fixed income, domestic and international equity futures, and forward currency contracts. Futures and other derivatives may not be used to take asset allocation outside the target ranges or to leverage the portfolio.

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

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.

Investment Restrictions

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 when the notional value of open positions exceeds the market value of the account.
- Effect short sales of equities, other than those executed by external managers or for the implementation of tactical asset allocation on a market sector.
- 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.

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 System does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the System's name. Nor does the System have any investments that are not registered in its name and are either held by the counterparty or the counterparty's trust department or agent, but not in the System's name.

The amount of the System's total cash and cash equivalents at June 30, 2008 was $1,737,585,683 of which $82,605,085 was in cash deposits and $1,654,980,598 was in cash equivalents, which are created through daily sweeps of excess cash by the System's custodian bank and the System's operational bank's into bank sponsored short-term securities backed by the U.S. government and into U.S. government money market funds.

C. Investments

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, Employees' 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.

D. Interest Rate Risk

As of June 30, 2008, the System had the following fixed income investments listed by specific identifier with the exception of the Mutual Funds, which are based on their average maturity:

	Fair Value	Investment Maturities (in years)			
Investment Type:	**(in thousands)**	**Less than 1**	**1 thru 5**	**5+ thru 10**	**More than 10**
Alternative investments	$ 591,947	$ 429,743	$ 0	$ 162,204	$ 0
Asset backed securities	233,990	0	56,055	22,039	155,896
Bond commingled funds	6,147,039	14,646	898,332	4,642,761	591,300
Collateralized mortgage obligations	560,891	0	0	2,100	558,791
Convertible bonds	790	0	0	0	790
Domestic corporate obligations	661,899	20,032	238,475	226,645	176,747
International obligations	67,250	0	12,958	17,931	36,361
Mortgage pass-throughs	1,657,893	0	3,470	19,295	1,635,128
Municipals	14,926	0	0	9,164	5,762
Options	1,709	1,709	0	0	0
Private Placement	8,074	0	299	7,775	0
Short term	1,654,981	1,654,981	0	0	0
Swaps	-49,472	2,128	-38,140	-2,562	-10,898
U.S. government agency	86,234	641	63,212	11,589	10,792
U.S. treasury bonds	301,466	0	0	0	301,466
U.S. treasury notes	678,190	13,536	248,422	416,232	0
U.S. treasury strips	14,126	0	0	0	14,126
Yankee bonds	125,770	1,000	39,657	44,138	40,975
Totals	$12,757,703	$ 2,138,416	$ 1,522,740	$ 5,579,311	$ 3,517,236

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 IOs, POs and inverse floaters, of which the System held $1.8 million as of June 30, 2008.

At June 30, 2008, the System had $1.7 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, 2008:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments
(Expressed in Thousands)

Rating	2008 Fair Value	Percentage Total Investments	2007 Fair Value	Percentage Total Investments
AAA	$2,793,001	7.351%	$4,473,449	10.920%
AA	153,775	0.405%	300,260	0.733%
A	1,350,084	3.553%	1,622,099	3.960%
BAA	20,240	0.053%	20,569	0.050%
BA	775	0.002%	0	0.000%
BBB	359,309	0.946%	542,356	1.324%
BB	53,834	0.142%	175,318	0.428%
B	37,361	0.098%	119,259	0.291%
CAA	15,435	0.041%	12,795	0.031%
CA	403	0.001%	192	0.000%
CCC	16,193	0.043%	15,222	0.037%
C	0	0.000%	5	0.000%
D	7	0.000%	0	0.000%
NR	6,970,642	18.346%	6,810,466	16.624%

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. NR represents securities not rated; primarily made up of swaps, commingled funds, and alternative investments, which by nature do not have credit quality ratings.

E. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2008 is as follows:

International Investment Securities – At Fair Value as of June 30, 2008
(U.S. Dollars in Thousands)

Currency	Equity	Income	Fixed Income	Alternate Investments	Mutual Funds	Total
Australian Dollar	$ 117,331	$ (423)	$ 940	$	$	$ 117,848
Brazilian Real	40,737	(1,870)	966			39,833
Canadian Dollar	31,808	416				32,224
Danish Krone	55,063		35			55,098
Euro Currency	1,197,460	33,454	12,855	123,957		1,367,726
Hong Kong Dollar	331,506		1,545			333,051
Israeli Shekel	4,675		5			4,680
Japanese Yen	574,872	3,459	9,239			587,570
Malaysian Ringgit	291		5			296
Mexican Peso	25,207	(236)	70			25,041
New Taiwan Dollar			10,308			10,308
New Turkish Lira	18,624		11			18,635
Norwegian Krone	95,583		2,414			97,997
Pound Sterling	516,182	25,840	4,915	65,683		612,620
Singapore Dollar	33,258		471			33,729
South African Rand	82,231		5			82,236
South Korean Won	43,344		6			43,350
Swedish Krona	116,949		160			117,109
Swiss Franc	237,138		619			237,757
Thailand Baht			44			44
Multiple			5	93,437	4,611,279	4,704,721
Total Holdings Subject to Foreign Currency Risk	$3,522,259	$ 60,224	$ 45,034	$ 283,077	$4,611,279	$8,521,873

The majority foreign currency-denominated investments are in non-US. stocks, which the System's current asset allocation policy has a target of 18% International and 15% Global.

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 American Depository Receipts and International obligations valued in U. S. dollars but classified as International. Mutual Funds listed have exposure to multiple currencies; however, are valued in U.S. dollars.

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 period ending June 30, 2008 (*in thousands*):

	2008	2007
Interest income	$ 89,962	$ 104,087
Less:		
Interest expense	70,077	98,067
Program fees	3,256	946
Expenses from securities lending	73,333	99,013
Net income from securities lending	$ 16,629	$ 5,074

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, 2008 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 at June 30, 2008 had a weighted average maturity of 33 days and an average expected maturity of one hundred 77.5 days. The system cannot pledge or sell collateral securities received unless and until a borrower defaults. Investments made with cash received as collateral and the corresponding liabilities are reported in the Statement of Plan Net Assets. Because the relationship between the maturities of the investment pools and the System's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the System cannot match maturities. 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 at June 30, 2008 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral:			
U.S. government and agency	$ 446,685	$ 455,444	102%
Domestic fixed income	42,144	43,384	103%
Domestic equity	817,860	841,935	103%
International equity	462,197	485,753	105%
Lent for noncash collateral:			
U.S. government and agency	20,167	20,590	102%
Domestic equity	60,304	61,705	102%
International equity	1,494	1,529	102%
Total securities lent	$1,850,851	$1,910,340	103%

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

In October 2006 the Board of Trustees removed the System's authority to participate in a commission recapture program. The program allowed the system to recapture a portion of the commissions paid to broker/dealers with which the System had entered into an agreement. Earnings credited to commission recapture income for the fiscal years ended June 30, 2008 and June 30, 2007 were $0 and $84 (expressed in thousands) respectively.

I. Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements.

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. Members of the Teachers' and Employees' Pension System, Alternate Contributory Pension Selection (ACPS), are currently required to contribute 4% of earnable compensation for fiscal year 2008. Beginning July 1, 2008 forward, the required member contribution rate is 5%. However, members of the Employees' Pension System who are employed by a participating governmental unit that elected to remain in the Contributory Pension System are required to contribute 2% of earnable compensation. The members of the Employees' Pension System who are employed by participating governmental units who elected to remain in the Non-Contributory Pension System are only 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 more than 100 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, 2008 and 2007, the outstanding balances were $54,222 and $56,868 (*expressed in thousands*), 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. 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, 2008 and 2007, refunds to members and withdrawing employers were as follows (*expressed in thousands*):

	2008	**2007**
Member refunds	$ 16,223	$ 16,021
Employer refunds	0	0
Total refunds	$ 16,223	$ 16,021

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2008 and 2007, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2008	**2007**
Administrative expenses	$ 5,655	$ 3,519
Investment management fees	14,719	15,680
Tax and other withholdings	21,352	19,429
Total	$ 41,726	$ 38,628

8. FUNDED STATUS AND FUNDING PROGRESS

The **Schedule of Funded Status** summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2008. The data presented in the schedule below was obtained from the System's independent actuary's annual valuation report as of June 30, 2008.

The primary measure of a System's funded status is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2008, the System's funded ratio decreased from 80.36% at June 30, 2007 to 78.62%. The decrease was caused by investment losses and an increase to the System's actuarial accrued liability.

The Schedule of Funded Status 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. During the year ended June 30, 2008, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 93% at June 30, 2007 to 102%.

The System uses the Individual Entry Age Normal actuarial funding 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 12-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 23 years.

Assets are valued for funding purposes using a 5-year smoothing method of recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The fina1 actuarial value is limited to not more than 120% nor less than 80% of the market value of assets.

The funded status of the System as of June 30, 2008 is as follows (*dollar amounts expressed in thousands*):

Actuarial Value of Assets a	Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	Percentage of Covered Payroll [(b - a) / c]
$39,504,284	$50,244,047	$10,739,763	78.62%	$10,542,806	102%

The **Schedule of Funding Progress**, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability. 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2008
Actuarial Cost Method	Individual Entry Age Normal Cost Method
Amortization Method	Level percent of payroll (period closed)
Remaining Amortization Period	12 years remaining at June 30, 2008 for UAAL at June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL. These periods do not reflect application of the corridor.
Asset Valuation Method	5-year straight line amortization of each year's investment gain or lost with final value not more than 120% nor less than 80% of market.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected payroll growth	3.50%
COLAs	3.00% (Judges System 3.50%)

For financial reporting purposes, the projection of benefits does not explicitly incorporate the potential effects of the legal limit on employer contributions disclosed in Note 4.

9. DECLINES IN INVESTMENT VALUES

During 2008, financial markets as a whole have incurred significant declines in values. As of November 18, 2008, the System's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the System will recognize in its future financial statements, if any, cannot be determined.

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]
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
2006	35,795,025	43,243,492	7,448,467	82.78	9,287,576	80
2007 **	37,886,936	47,144,354	9,257,418	80.36	9,971,012	93
2008	39,504,284	50,244,047	10,739,763	78.62	$10,542,806	102

* 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.

** Beginning July 1, 2006, the system changed its funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method. Due to an actuarial error, the Schedule of Funding Progress presented in the June 30, 2007 Comprehensive Annual Financial Report overstated the Actuarial Accrued Liability. The 2007 funding results have been restated above to reflect the corrected actuarial valuation results.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITY

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
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
2006	874,079	82
2007	1,025,972	81
2008	$1,183,765	89

* Implementation of the statutory corridor funding method in fiscal year 2003 set the contributions made by the State into the Employees' and Teachers' Combined Systems at the contribution rates generated by the June 30, 2000 valuation which are adjusted when the funded ratio for the Employees' Systems and/or for the Teachers' systems falls below 90% or exceeds 110% **and/or** when the benefits for the Employees' or Teachers' Systems are enhanced.

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.

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2008 (with Comparative 2007 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2008	Totals 2007
Fund Balances, Beginning of Year	$2,473,632	$36,971,149	$ –	$39,444,781	$34,370,819
Additions					
Net investment income	–	(2,046,565)	(93,097)	(2,139,662)	5,924,070
Contributions (note 4):					
Employers	–	443,207	–	443,207	358,417
Members	420,461	–	–	420,461	319,274
Other	–	598,575	–	598,575	471,366
Contribution interest	–	6,181	–	6,181	3,999
Deductions					
Benefit payments	–	(2,120,463)	–	(2,120,463)	(1,965,872)
Refunds (note 6)	(16,223)	–	–	(16,223)	(16,021)
Administrative expenses (note 2E)	–	–	(23,147)	(23,147)	(21,271)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	(114,284)	(114,284)	–	–	–
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(204,993)	204,993	–	–	–
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	–	(116,244)	116,244	–	–
Net changes in fund balances	84,961	(3,144,600)	–	(2,831,071)	5,073,962
Fund Balances, End of Year	$2,558,593	$33,826,549	$ –	$36,613,710	$39,444,781

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2008 and 2007

(Expressed in Thousands)

	2008	**2007**
Personnel services		
Staff salaries	$10,415	$ 9,896
Fringe benefits	3,394	3,310
Total personnel services	13,809	13,206
Professional and contractual services		
Actuarial	572	(105)
Legal and financial	179	419
Consulting services	25	173
Data processing	4,435	3,526
Other contractual services	221	517
Total professional and contractual services	5,432	4,530
Miscellaneous		
Communications	604	745
Rent	1,777	1,632
Equipment and supplies	483	357
Other	1,042	801
Total miscellaneous	3,906	3,535
Total Administrative Expenses	$23,147	$21,271

SCHEDULE OF INVESTMENT EXPENSES
for the Fiscal Years Ended June 30, 2008 and 2007
(Expressed in Thousands)

	2008	2007
Investment advisors		
Equity managers	$53,661	$48,567
Fixed managers	15,300	10,208
Real estate managers	20,868	13,797
Total investment advisory fees	89,829	72,572
Other investment service fees		
Master custody	816	1,012
Income verification services	347	301
Investment consultant	1,760	1,500
Other investment expenses	345	580
Total other investment service fees	3,268	3,393
Total Investment Expenses	$93,097	$75,965

STATE RETIREMENT AND

SCHEDULE OF PLAN NET

as of June 30, 2008

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets:			
Cash and cash equivalents (Note 3)	$ 1,042,501	$ 576,858	$ 25,992
Receivables			
Contributions			
Employers	–	8,664	18
Employers- Long Term (Note 5)	–	54,222	–
Members	739	1,005	–
Accrued investment income	37,008	21,064	454
Investment sales proceeds	450,690	256,227	5,530
Due from other systems	576	–	–
Total receivables	489,013	341,182	6,002
Investments, at fair value (Notes 2 & 3)			
U.S. Government obligations	652,627	370,946	8,007
Domestic corporate obligations	4,165,467	2,367,603	51,108
International obligations	197,978	112,528	2,429
Domestic stocks	8,706,255	4,965,566	106,827
International stocks	5,163,644	2,945,203	63,358
Mortgages & mortgage related securities	1,340,758	762,071	16,451
Real estate	305,134	174,355	3,744
Alternative investments	1,306,351	744,822	16,028
Collateral for loaned securities	1,103,719	627,341	13,542
Total investments	22,941,933	13,070,435	281,494
Total assets	24,473,447	13,988,475	313,488
Liabilities			
Accounts payable & accrued Expenses (Note 7)	26,079	13,457	433
Investment commitments payable	1,283,033	729,394	15,742
Obligation for collateral loaned securities	1,103,719	627,341	13,542
Other liabilities	991	566	12
Due to other systems	664	435	–
Total liabilities	2,414,486	1,371,193	29,729
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 37)	$ 22,058,961	$ 12,617,282	$ 283,759

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

PENSION SYSTEM OF MARYLAND

ASSETS BY SYSTEM

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 67,053	$ 1,129	$ 24,053	$ 1,737,586	$ -	$1,737,586
592	–	903	10,177	–	10,177
–	–	–	54,222	–	54,222
–	4	52	1,800	–	1,800
2,034	6	706	61,272	–	61,272
24,769	76	8,602	745,894	–	745,894
–	–	554	1,130	(1,130)	–
27,395	86	10,817	874,495	(1,130)	873,365
35,869	111	12,456	1,080,016	–	1,080,016
228,935	706	79,503	6,893,322	–	6,893,322
10,881	33	3,779	327,628	–	327,628
478,099	1,475	166,261	14,424,483	–	14,424,483
283,569	875	98,607	8,555,256	–	8,555,256
73,688	227	25,590	2,218,785	–	2,218,785
16,778	52	5,822	505,885	–	505,885
71,786	220	24,935	2,164,142	–	2,164,142
60,661	187	21,066	1,826,516	–	1,826,516
1,260,266	3,886	438,019	37,996,033	–	37,996,033
1,354,714	5,101	472,889	40,608,114	(1,130)	40,606,984
1,310	9	438	41,726	–	41,726
70,515	217	24,488	2,123,389	–	2,123,389
60,661	187	21,066	1,826,516	–	1,826,516
55	-	19	1,643	–	1,643
8	23	–	1,130	(1,130)	–
132,549	436	46,011	3,994,404	(1,130)	3,993,274
$ 1,222,165	$ 4,665	$ 426,878	$ 36,613,710	$ -	$36,613,710

STATE RETIREMENT AND

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	$ 23,934	$ 342,302	$ 16,467
Members	245,734	161,262	1,652
Other	598,380	–	195
Contribution interest	–	6,181	–
Total contributions	868,048	509,745	18,314
Investment income			
Net appreciation (depreciation) in fair value of investments	(1,608,807)	(919,156)	(19,849)
Interest	204,592	116,861	3,097
Dividends	143,587	81,973	1,775
Real estate operating net income	15,155	8,642	192
Income before securities leading activity	(1,245,473)	(711,680)	(14,785)
Gross income from securities lending activity	54,314	30,971	669
Securities lending borrower rebates	(42,310)	(24,124)	(521)
Securities lending agent fees	(1,966)	(1,121)	(24)
Net income from securities lending activity	10,038	5,726	124
Total investment income	(1,235,435)	(705,954)	(14,661)
Less investment expenses			
Investment advisory fees	(55,469)	(31,654)	(679)
Other investment expenses	(623)	(537)	(2)
Total investment expenses (Note 2E)	(56,092)	(32,191)	(681)
Net investment income	(1,291,527)	(738,145)	(15,342)
Transfers from other systems	6,445	325	–
Total additions	(417,034)	(228,075)	2,972
Deductions			
Benefit payments	1,276,519	713,764	22,010
Refunds (Note 5)	7,190	8,609	107
Administrative expenses (Note 2E)	12,181	10,507	33
Transfers to other systems	6,114	3,095	2
Total deductions	1,302,004	735,975	22,152
Net increase (decrease) in plan assets	(1,719,038)	(964,050)	(19,180)
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	23,777,999	13,581,332	302,939
End of the fiscal year	$ 22,058,961	$ 12,617,282	$ 285,759

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

PENSION SYSTEM OF MARYLAND

PLAN NET ASSETS BY SYSTEM

June 30, 2008

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 13,282	$ 574	$ 46,648	$ 443,207	$ –	$ 443,207
6,751	–	5,062	420,461	–	420,461
–	–	–	598,575	–	598,575
–	–	–	6,181	–	6,181
20,033	574	51,710	1,468,424	–	1,468,424
(89,051)	(276)	(29,717)	(2,666,856)	–	(2,666,856)
12,047	69	3,962	340,628	–	340,628
7,916	24	2,663	237,938	–	237,928
799	2	306	25,096	–	25,096
(68,289)	(181)	(22,786)	(2,063,194)	–	(2,063,194)
3,018	9	981	89,962	–	89,962
(2,351)	(7)	(764)	(70,077)	–	(70,077)
(109)	–	(36)	(3,256)	–	(3,256)
558	2	181	16,629	–	16,629
(67,731)	(179)	(22,605)	(2,046,565)	–	(2,046,565)
(3,091)	(9)	(1,012)	(91,914)	–	(91,914)
(8)	–	(13)	(1,183)	–	(1,183)
(3,099)	(9)	(1,025)	(93,097)	–	(93,097)
(70,830)	(188)	(23,630)	(2,139,662)	–	(2,139,662)
12	7	2,484	9,273	(9,273)	–
(50,785)	393	30,564	(661,965)	(9,273)	(671,238)
81,420	305	26,445	2,120,463	–	2,120,463
40	–	277	16,223	–	16,223
159	7	260	23,147	–	23,147
16	23	23	9,723	(9,273)	–
81,635	335	27,005	2,169,106	(9,273)	2,159,833
(132,420)	58	3,559	(2,831,071)	–	(2,831,071)
1,354,585	4,607	423,319	34,444,781	–	39,444,781
$ 1,222,165	$ 4,665	$ 426,878	$ 36,613,710	$ –	$ 36,613,710

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SRPS

Investment Section

CHIEF INVESTMENT OFFICER'S REPORT

OVERVIEW

The State Retirement and Pension System ("SRPS" or the "System") returned -5.4 percent in fiscal 2008 and as a result, the market value of assets declined from $39.4 billion on June 30, 2007 to $36.6 billion on June 30, 2008.

The domestic equity market performed poorly as a declining housing market led to problems throughout the financial sector. The System's U.S. public equity portfolio returned -14.0 percent compared to a return of -12.7 percent for the Russell 3000 Index, a broad measure of U.S. stock returns. Domestic equities underperformed international equities on concerns of a sluggish U.S. economy, weakness of the U.S. dollar versus other major currencies and relatively high U.S. stock market valuation levels.

The international equity portfolio returned -6.5 percent, slightly ahead of the -6.6 percent return of the MSCI All Country World ex U.S. Index. Many international markets faltered as the housing crisis spread throughout the developed countries. Emerging markets continued to outperform developed markets.

Private equities had a positive year, returning 12.9 percent, exceeding the System's benchmark return of -8.2 percent for private equity (Russell 3000 + 400 basis points). The private equity program continues to progress toward the strategic target approved by the Board of Trustees. At June 30, 2008, private equities comprised 1.7 percent of total assets.

It was a challenging environment for fixed income. Declining interest rates and widening credit spreads led to a rally in the U.S. Treasury markets. Credit products and many mortgage related securities experienced their worst performance in recent times. Liquidity became a critical issue as some securities ceased to trade. The System's fixed income return of 6.2 percent was in line with the overall fixed income market, as measured by the Lehman Brothers U.S. Universal Index.

U.S. and international REITs performed poorly, adversely affecting overall real estate returns. The real estate program returned -2.9 percent for fiscal 2008. Performance for the NCREIF Property Index was 13.6 percent (one quarter lag) and the Wilshire Real Estate Securities Index returned -15.4 percent. The housing crisis, coupled with high valuation levels and an end to the trend of public REITs going private, led to the first significant decline in this asset class in ten years. Notably, over longer five- and ten-year periods, REITs have added value to the portfolio.

The System's emerging manager program, overseen by Northern Trust Global Advisors, performed well in fiscal 2008, outperforming its benchmark by over 4 percentage points. This program is designed to diversify the System's manager base, generate after-fee returns greater than a passive alternative and provide strong risk management. We will increase the scope and size of the program in fiscal 2009.

Also, as part of an ongoing strategy to increase asset diversification, the Board of Trustees made several changes to the System's asset allocation, including increasing the allocation to private equity, real estate, global equity and real return asset classes and decreasing the allocation to U.S. equity and fixed income.

INVESTMENT POLICY AND OBJECTIVES

The Board of Trustees is charged with the responsibility of managing the assets of the State Retirement and Pension System. In doing so, the Board is required to exercise its fiduciary duties solely in the interest of the participants, with the care, skill and diligence that a prudent person would exercise under similar circumstances. This standard of care encourages diversifying investments across various asset classes.

Investment objectives are designed to support fulfillment of the Retirement Agency's mission, which is to optimize risk-adjusted returns to ensure that sufficient assets are available to fund the payment of benefits to members and beneficiaries when due. 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 to establish investment policies based on criteria that it defines and allows for the delegation of authority to investment professionals 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 SRPS' assets with the goal of achieving an annualized investment return that over a longer term time frame that:

1. **Meets or exceeds the System's Investment Policy Benchmark.** The Investment Policy Benchmark is calculated by using a weighted average of the Board-established benchmarks for each asset class. The benchmark enables comparison of the System's actual performance to a passively managed proxy and measures the contribution of active management and policy implementation to overall fund returns;

2. **In nominal terms, equals or exceeds the actuarial investment return assumption of the System adopted by the Board.** The actuarial rate of interest as of June 30, 2008 was 7.75 percent. The actuarial investment return assumption is a standard for the long-term rate of growth of the System's assets. In adopting an actuarial return assumption, the Board anticipates that the investment portfolio may achieve higher returns in some years and lower returns in other years; and

3. **In real terms, exceeds the U.S inflation rate by least 3 percent.** The inflation related-objective compares the investment performance against a rate of inflation measured by the Consumer Price Index (CPI) plus 3 percent. The inflation measure provides a link to the System's liabilities.

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; and
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 a fund's return in a given year. The Board considers the System's 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, there is a focus on long-term return, to ensure that 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.

The Board's asset class targets and ranges as of June 30, 2008 are shown below.

ASSET CLASS	TARGET	RANGE
Domestic Equity	27%	22% - 32%
International Equity	16%	13% - 19%
Global Equity	14%	12% – 16%
Private Equity	5%	2% – 7%
Total Equity	62%	
Fixed Income	17%	12% -22%
Real Estate	10%	8% – 12%
Real Return	5%	4% – 6%
Absolute Return/Opportunities Allocation	5%	0% – 5%
Cash	1%	0% - 2%
TOTAL ASSETS	**100%**	

Note: After the fiscal year's end, the Board of Trustees approved a number of changes to the System's asset allocation. Further information regarding the System's current asset allocation is set forth in the concluding section of this report. Additional information regarding the System's asset allocation may also be found at the Agency's website, www.sra.state.md.us.

INVESTMENT PERFORMANCE

Investment performance is calculated using time-weighted rates of total return. Total return includes interest and dividends, as well as capital appreciation.

The investment program realized a return of -5.4 percent for fiscal year 2008. Annualized returns for the three-, five-, and 10-year years ending June 30, 2008 were 7.1 percent, 9.3 percent and 5.0 percent, respectively.

	FY 2008 SRPS Performance	FY 2008 Benchmark Performance	SRPS Exposure June 30, 2008
Total Equity	10.9%		
U.S. Equity	-14.0%		34.4%
S&P 500		-13.1%	
Russell 3000		-12.7%	
Emerging Manager	-8.7%	-13.0%	1.0%
International Equity	-6.5%		15.2%
MSCI ACWI ex. U.S.		-6.6%	
MSCI EAFE		-10.6%	
MSCI Emerging		4.6%	
Global Equity	-9.5%		10.5%
MSCI AC World		-9.3%	
Private Equity	12.9%		1.7%
Russell 3000+400 bps		-8.2%	
Fixed Income	6.2%		24.4%
Lehman Universal Bond Index		6.2%	
Lehman Aggregate Bond Index		7.1%	
Real Estate	-2.9%		6.5%
NCREIF Property (one quarter lag)		13.6%	
Wilshire Real Estate Securities		-15.4%	
Real Return	15.3%		4.2%
Lehman U.S. TIPS		15.1%	
Opportunity Allocation 91 day T-Bill +5%	N/A[1]	8.6%	2.2%
TOTAL FUND	**-5.4%**	**-5.1%**	**100%**

[1] Opportunity Allocation inception date was April 1, 2008. Therefore, fiscal year 2008 performance figures are not shown. During the period April 1, 2008 – June 30, 2008, (a) the Opportunity Allocation returned 5.5 percent and (b) the Benchmark (91 day T-Bill +5%) return was 1.5 percent.

ECONOMIC AND CAPITAL MARKET OVERVIEW

In fiscal 2008, turmoil in the U.S and global economies caused stock prices to fall steadily throughout most of the year and volatility to increase. In October 2007, after reaching an all-time high, the S&P 500 began losing ground and ended the year in negative territory. For the year ended June 30, 2008, the Russell 3000 returned a negative 12.7 percent. International stock markets were adversely affected as well. The MSCI ACWI ex-U.S. Index, a widely followed indicator of international stock performance, experienced a negative 6.6 percent return over the same 12-month period.

On the other hand, prices of government bonds rose as the Federal Reserve lowered short term interest rates and investors sought a safe haven in uncertain times. Ten-year Treasury yields went from 5 percent on July 1, 2007 to 4 percent on July 1, 2008. For FY 2008, the bond market as measured by the Lehman Brothers U.S. Universal Bond Index returned 6.2 percent.

The crisis in the housing market and subprime lending was at the center of the nation's difficulties. Since early in 2006, when the housing market peaked, sales and prices have fallen nearly every month. For the 12 months ending in May 2008, house prices fell over 15 percent, according to the S&P/Case-Shiller Home Price Index, a closely watched gauge of U.S. home prices. The fallout from subprime lending problems led to tighter lending standards not only for home mortgages but also auto loans, and commercial real estate and industrial loans.

Despite the dismal news on falling housing prices, rising unemployment and higher inflation, there were some bright spots. The weak dollar helped U.S. firms increase their foreign sales, which were a source of strength for the domestic economy. Consumer spending, which accounts for about 70 percent of overall economic activity, rose 1.7 percent from April 2008 to June 2008, aided by the government's stimulus checks. This in turn helped the U.S. economy grow at a 3.3 percent annual rate in the second quarter of calendar year 2008, an upward revision to an earlier estimate of 1.9 percent and above the projections of many economists. The second quarter of calendar year 2008's surprisingly strong performance followed a 0.9 percent growth rate in the preceding quarter and a contraction of 0.2 percent in the final quarter of calendar year 2007.

As of June 30, 2008, SRPS had approximately $22.3 billion invested in public equities, representing 61.1 percent of the System's total assets. Public equity investments decreased by $3.2 billion over the year due to a shift in asset allocation. Total U.S. equities equated to approximately $12.9 billion, a decrease of $3.4 billion from the previous year. International equities totaled approximately $5.6 billion, an increase of $0.4 billion. The global equity allocation totaled approximately $3.9 billion at year end. Public equity assets were placed with 23 external managers and broadly diversified among the major countries and industry sectors of the developed and emerging markets. The managers use active and passive strategies, and are expected to outperform their assigned benchmark, after fees.

U.S. Equity

As of June 30, 2008, passively managed U.S. equity assets totaled approximately $9.0 billion and represented 24.7 percent of total assets. Actively managed equities totaled approximately $3.9 billion and represented 10.6 percent of total assets.

U.S. Equity	$ Millions	% of Total Plan
Passively Managed		
Growth	$ 774.0	2.1%
All Cap	8,272.8	22.6%
Total Passive	**$9,046.8**	**24.7%**
Actively Managed		
Enhanced Equity	460.4	1.3%
Large Cap	2,368.8	6.6%
Mid Cap	53.1	0.1%
Small Cap	265.7	0.7%
Micro Cap	592.5	1.6%
Cash	120.6	0.3%
Total Active	**$3,861.2**	**10.6%**
Total U.S. Equity	**$12,908.0**	**35.3%**

International Equities

At the end of the fiscal year, approximately $5.6 billion, or 15.3 percent of total assets were invested in international equities. The securities are managed externally by a passive portfolio manager and five active managers.

International Equity	$ Millions	% of Total Plan
Passively Managed		
MSCI AC World ex US	$4,113.7	11.2%
Total Passive	**4,113.7**	**11.2%**
Actively Managed		
MSCI AC World ex US	1,045.6	2.9%
S&P/Citicorp EMI World	135.8	0.4%
MSCI EAFE Small Cap	258.1	0.7%
MSCI EAFE	34.1	0.1%
Total Active	**1,473.6**	**4.1%**
Transition Account	0.8	0.0%
Total International Equity	**$5,588.1**	**15.3%**

International equity returns are benchmarked against the Morgan Stanley Capital International All Country World ex U.S. Index. The combined portfolios returned -6.5 percent in fiscal year 2008, outperforming the benchmark by 16 basis points.

Global Equities

Global equities totaled approximately $3.9 billion, or 10.5 percent of total assets at fiscal year-end. The securities are managed externally by four active portfolio managers.

Global Equity	$ Millions	% of Total Plan
Actively Managed		
MSCI AC World	3,852.2	10.5%
Total Global Equity	**3,852.2**	**10.5%**

Global equity returns are benchmarked against the Morgan Stanley Capital International All Country World Index. The combined portfolios returned a -9.5 percent in fiscal year 2008, underperforming the benchmark by 23 basis points. This was due to unsuccessful sector allocations and stock selections by the managers.

EMERGING MANAGER PROGRAM

The System's emerging manager program totaled approximately $337 million or slightly less than one percent of total assets at June 30, 2008. The program, overseen by Northern Trust Global Advisors, was initially funded in April, 2007. The program's performance during the fiscal year was very strong, outperforming its benchmark by over 4 percentage points. Given these encouraging early results, the Board of Trustees authorized expansion of the program in April, 2008. Note: In September, 2008, the System announced a significant revision and expansion of the System's emerging manager program, now called the Terra Maria Program. Further information regarding the Terra Maria Program is set forth in the concluding section of this report. Additional information regarding this program may also be found at the Agency's website, www.sra.state.md.us.

PRIVATE EQUITY

SRPS continued to expand the System's private equity program. In fiscal 2008, SRPS made commitments to 13 funds totaling approximately $809 million. This is in addition to commitments to 15 funds totaling $402 million in fiscal 2007, and 11 funds totaling $198 million in fiscal 2006. The total market value of the private equity program was $634 million on June 30, 2008.

In fiscal 2009, we expect that the System's exposure to the private equity will continue to increase toward its long-term targeted levels. At June 30, 2008, the target allocation to this asset class was five percent with a range of two percent to seven percent, and the actual allocation was 1.7 percent. Given the cash flow dynamics in private equity, it will take several more years for the target allocation to be reached.

FIXED INCOME

The System's fixed income portfolio totaled approximately $8.9 billion, representing approximately 24.4 percent of total assets as of June 30, 2008. The objective of this sector is to outperform the Lehman Brothers U.S. Universal Index. Of the total amount, $3.5 billion, or 39 percent, was held in a passive strategy indexed to the Lehman Brothers U.S. Aggregate Index. The remaining $5.5 billion is actively managed by four external managers, mainly in core plus fixed income accounts, which seek to outperform the Lehman Universal Index. The SRPS fixed income portfolio returned 6.2 percent for the one-year period ended June 30, 2008, versus 6.2 percent for the Lehman Universal Index.

Fiscal year 2008 proved to be a very challenging environment for the fixed income market. The issues surrounding the residential housing market infected virtually all areas of the fixed income market. The fiscal year began with the collapse of two Bear Stearns hedge funds that had invested primarily in subprime linked securities. By early August, panic had set into the market as the European Central Bank injected €95 billion into money markets and the U.S. Federal Reserve was forced to cut the discount rate by 50 basis points. These measures, however, proved not enough to curtail what became a global credit crisis. In the subsequent months of the fiscal year, the market experienced historical widening in several spread sectors, evaporation of liquidity and the demise of a major Wall Street firm. The U.S. Federal Reserve cut the fed funds rate and discount rate by 325 and 350 basis points, respectively, and made the unprecedented move of establishing several lending facilities.

The primary driver of returns for the Lehman Universal was the decline in interest rates. The benchmark for intermediate-term interest rates, the U.S. Treasury 10-year Note, declined in yield from 5% to 3.96% during the fiscal year.

Fixed income securities typically provide more consistent, less volatile returns than equity markets. However, the current and near-term bond market environment is expected to remain very challenging. It is during these periods of distress that excellent investment opportunities may arise, and the System's active managers will continue to seek out undervalued bond sectors as well as individual securities to enhance returns.

REAL ESTATE

The real estate portfolio returned -2.9 percent versus -1.3 percent on its benchmark, a blend of the NCREIF and Wilshire Indices. At the end of the fiscal year, approximately 6.5 percent of the System's assets, valued at $2.4 billion, were invested in real estate. This is compared to 4.9 percent or $1.9 billion invested at the same time last year. Real estate investments include direct investments, publicly traded securities and private investment funds. The largest changes in the allocation came in additional funding for publicly traded securities and private fund investments. During the fiscal year, the System committed $375 million to four funds with either value added or opportunistic mandates both in the U.S. and overseas. Strong returns in the direct investments were offset by weaker returns in publicly traded securities. Private real estate investment funds with vintage years prior to 2007 performed well overall.

Real estate markets have suffered because of higher capitalization rates, slower or negative economic growth and lenders tightening credit standards. Looking ahead, for the rest of 2008 and quite possibly 2009, the real estate markets will likely continue to show signs of weakness. Many businesses will await tangible evidence of economic expansion before committing to additional leased space. It is expected that the U.S. may suffer lower rents and greater vacancy as it sorts through over-construction in some markets.

REAL RETURN

The real return portfolio totaled approximately $1.5 billion, representing 4.2 percent of the System's total assets, as of June 30, 2008. The System's existing real return strategies, which generally invest in inflation protected securities, are largely used to protect investment returns against inflation and provide diversification. These types of strategies are a good fit for the System's portfolio, as retiree benefits are inflation-adjusted. The objective for these strategies is to outperform the Lehman Brothers U.S. TIPS Index. The portfolio returned 15.3 percent in fiscal 2008 versus 15.1 percent for the Lehman TIPS Index.

Although this was a challenging year, the investment program is well diversified and managed. We remain confident that the System's trust fund will continue to generate positive long-term returns in the years ahead.

SIGNIFICANT SUBSEQUENT EVENTS

While the purpose of this report is to highlight events and accomplishments of Fiscal Year 2008, given the timing of this report, I believe it is important to comment upon three major events which have occurred subsequent to the end of the fiscal year.

Asset Allocation

The first significant subsequent event concerns the System's asset allocation. In September, 2008, the Board of Trustees, in conjunction with its staff and Ennis Knupp, the System's general investment consultant, made a number of asset allocation changes, including the following:

a. The System's target allocation to private equity was increased from 5 percent to 15 percent;

b. The target allocation to real return was increased from 5 percent to 10 percent;

c. The opportunity allocation was renamed – it is now called the absolute return asset class – and its allocation was increased from 5 percent to 10 percent;

d. In lieu of having three distinct and separate public equity programs, the CIO was given the authority to manage U.S. equity, international equity and global equity as part of one unified, public equity asset class. As part of this reconceptualization, (i) the home country bias was eliminated in the public equity program and (ii) the allocation to public equities was reduced significantly (to 39 percent); and

e. The allocation to fixed income was reduced slightly, from 17 percent to 15 percent.

In November, 2008, the Board of Trustees approved a recommendation from staff to increase the target allocation to cash from 1 percent to 3 percent. This increase will be funded by reducing public equities from 39 percent to 37 percent.

The System's current asset allocation as of November 18, 2008 is set forth below

ASSET CLASS	TARGET
Public Equity Program (including U.S. Equity, International Equity and Global Equity)	37%
Private Equity	15%
Fixed Income	15%
Real Estate	10%
Real Return	10%
Absolute Return	10%
Cash	3%
TOTAL ASSETS	**100%**

The Terra Maria Program

The second material event concerns the significant revision and expansion of the System's emerging manager program, now called the Terra Maria Program. In September, 2008, the System announced the appointment of six new program managers for this program, in addition to Northern Trust Global Advisors. The seven program managers have been asked to recommend investment managers whom they believe have the ability to generate alpha relative to their assigned benchmarks. The program managers are serving as an extension of the System's in-house investment staff. The program managers will be sourcing prospective managers, performing due diligence, monitoring the retained investment managers, and presenting manager hire and termination recommendations and funding allocation recommendations to the Chief Investment Officer, whose approval is required for all such recommendations. The investment managers will thus be directly under the control of the CIO: they will be a part of the System's total fund portfolio and will be evaluated in the same manner as any other manager in the portfolio. At this time, the program will continue to focus on the U.S. equity, international equity, global equity and fixed income asset classes.

Adverse Market Environment

The third material event concerns the profound discord that has afflicted the global capital markets in the months following the end of the 2008 fiscal year. A crisis of confidence developed in the third quarter of calendar year 2008 which has, in turn, led to an array of problems in the capital markets worldwide, including the freezing up of many portions of the fixed income markets, and dramatic increases in volatility in stock and bond markets. Virtually no asset class with the possible exception of cash has been spared. Similarly, hardly any country, whether developed or emerging, has been unaffected. The result has been a material decrease in the market value of most investors' holdings. The Board of Trustees, its staff and investment consultants remain convinced of the wisdom codified in our State's law and reiterated in the System's Investment Policy Manual – namely, that in exercising their fiduciary duties solely in the interest of the participants, and with the care, skill and diligence that a prudent person would exercise under similar circumstances, it is critical to remain disciplined. That means adhering to, and prudently implementing, the well-diversified asset allocation selected by the Board of Trustees.

Respectfully submitted,

Mansco Perry III

Mansco Perry III, CFA
Chief Investment Officer
Investment Division

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2008
(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$13,115,501	$ 1,939
Templeton Investment Counsel, Inc.	1,604,800	4,319
T. Rowe Price Associates, Inc.	1,362,630	3,834
Artisan Partners Limited Partnership	1,042,018	4,117
Wellington Management Co., LLP	952,885	2,979
Dimensional Fund Advisors, Inc.	847,736	4,707
Baillie Gifford & Company	773,960	1,484
Acadian Asset Management	734,185	2,550
Alternative Investments *	632,298	12,613
Legg Mason Capital Management, Inc.	611,385	2,253
Relational Investors	435,080	5,132
BGI Global Ascent Fund	198,177	796
Breeden Partners, LP	188,584	2,902
GlobeFlex Capital, LP	135,308	920
Internally Managed	120,224	N/A
Northern Trust Developing Managers		510
Twin Capital Management	32,526	69
Atlanta Life Investment Advisors	20,493	30
Palisades Investment Partners	18,456	37
Lynmar Capital Group	45,476	64
Profit Investment Management	55,867	78
Geneva Capital Management	52,957	141
Signia Capital Management	26,878	146
Lombardia Capital Partners	49,682	195
Eagle Global Advisors	19,460	76
Hexavest Global	14,486	13
Other **	11,325	2,773
	$23,102,377	$54,677

	Fair Value	Investment Advisory Fee
Fixed Income Managers		
State Street Global Advisors	$ 3,456,265	$ 486
Pacific Investment Management Company	3,419,638	6,743
Western Asset Management	1,738,565	2,402
Pyramis Global Advisors	801,353	666
Aberdeen Asset Management	795,976	629
Bridgewater Pure Alpha Fund	398,537	1,396
Mellon Global Alpha Fund	189,349	0
Internally Managed	8,763	N/A
Other **	207,443	2,978
	$11,015,889	$ 15,300
Real Estate Managers		
Morgan Stanley Investment Management	$ 562,208	$ 2,596
LaSalle Investment Management Securities, LP	471,838	1,068
LaSalle Investment Management, Inc.	463,103	7,669
J.P. Morgan Investment Management, Inc.	409,639	3,036
Alternative Investments*	332,027	6,499
Internally Managed	115,222	N/A
Other **	200	253
	$ 2,354,237	$ 21,121

* *Separately listed on the following page*
** *Consulting fees and investment managers no longer under contract as of 6/30/08*

INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2008 and 2007
(Expressed in Thousands)

	2008		2007	
	Fair Value	**% of Fair Value**	**Fair Value**	**% of Fair Value**
Fixed Income				
Domestic corporate obligations	$ 6,893,322	18.9%	$ 7,970,706	20.3%
Mortgages & mortgage related securities	2,218,785	6.1	2,281,655	5.8
U.S. Government obligations	1,080,016	3.0	1,296,564	3.3
International obligations	327,628	0.9	158,118	0.4
Alternative investments	591,947	1.6	0	0.0
**Net cash & cash equivalents	-95,808	-0.3	-141,889	-0.4
*Total Fixed Income	**11,015,890**	**30.2**	**11,565,154**	**29.4**
Equity				
Domestic stocks	13,926,194	38.2	16,491,192	42.0
International stocks	8,040,050	22.0	7,706,146	19.6
Alternative investments	830,433	2.3	384,666	1.0
Fixed Income investments	0	0.0	955,827	2.4
**Net cash & cash equivalents	305,695	0.8	280,626	0.7
Total Equity	**23,102,372**	**63.3**	**25,818,457**	**65.7**
Real Estate				
Real Estate Investment Trusts	1,013,495	2.8	838,630	2.1
Directly owned real estate	505,885	1.4	510,991	1.3
Alternative investments	741,762	2.0	474,764	1.2
**Net cash & cash equivalents	93,095	0.3	105,791	0.3
Total Real Estate	**2,354,237**	**6.5**	**1,930,176**	**4.9**
Total Potfolio	**$36,472,499**	**100.0%**	**$39,313,787**	**100.0%**

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

** *Includes investment receivables and payables.*

ALTERNATIVE INVESTMENTS PARTNERSHIP LISTING
as of June 30, 2008

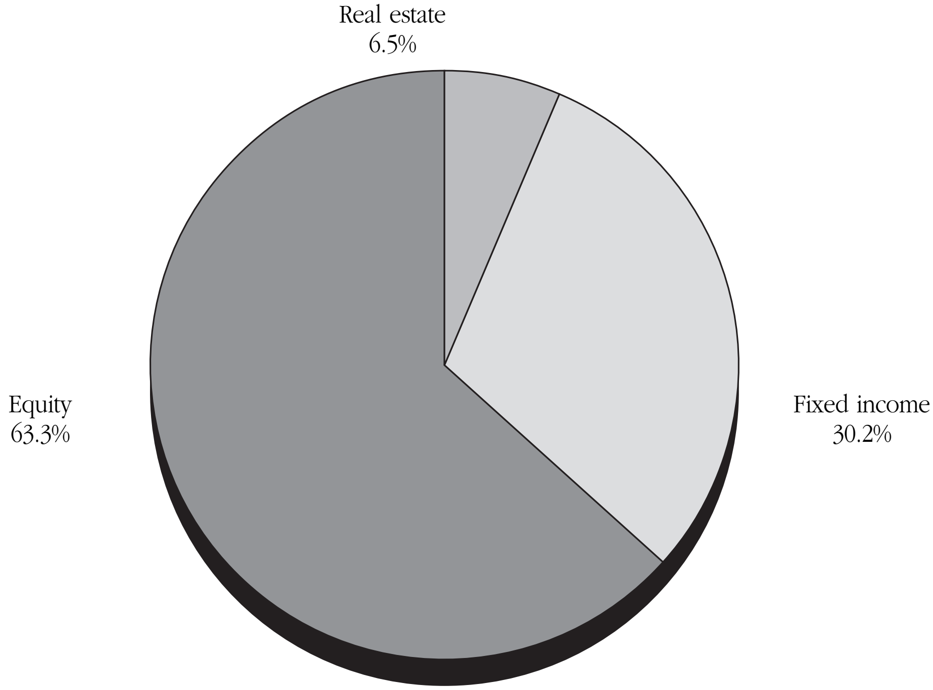
Private Equity

Abbott Capital Private Equity Fund III, LP
Adams Street Partners, LLC
Advent International GPE V-D, LP
Advent Central & Eastern Europe IV
Alchemy Partners, LP
Apax Europe VI-A, LP
Apax Europe VII-A, LP
Arcadia II
Audax Private Equity II, LP
Audax Private Equity III, LP
Azure Capital Partners II, LP
Bain Capital Fund IX, LP
Bain Capital Fund X, LP
Bain Capital IX Coinvestment Fund, LP
BC European Capital VIII
Calvert Street Capital Partners III, LP
Carlyle Partners V, LP
Charterhouse Capital Partners VIII, LP
Commonwealth Capital Ventures IV, LP
ECI 8, LP
Frazier Healthcare V, LP
Frazier Healthcare VI, LP
Graphite Capital Partners VII
Graphite Capital Partners Top Up
Great Hill Equity Partners III, LP
Hancock Park Capital III, LP
HarbourVest Partners VI Partnership Fund, LP
HarbourVest Partners VI Buyout Fund, LP
Hellman & Friedman Investors VI, LLC
HG Capital 5, LP
Lion Capital Fund I, LP
Lion Capital Fund II, LP
Littlejohn Fund III, LP
Longitude Venture Partners, LP
Madison Dearborn Capital Partners V, LP
Madison Dearborn Capital Partners VI, LP
Natural Gas Partners VIII, LP
Natural Gas Partners IX, LP
New Mountain Partners III, LP
NGP Midstream & Resources, LP
Permira IV, LP 2
Private Equity Partners Fund IV
Quantum Energy Partners IV, LP
RLH Investors II, LP
Summer Street Capital II, LP
Symmetric Partners, LP
TA X, LP
Valhalla Partners II, LP
Vector Capital IV, LP
Vestar Capital Partners V, LP

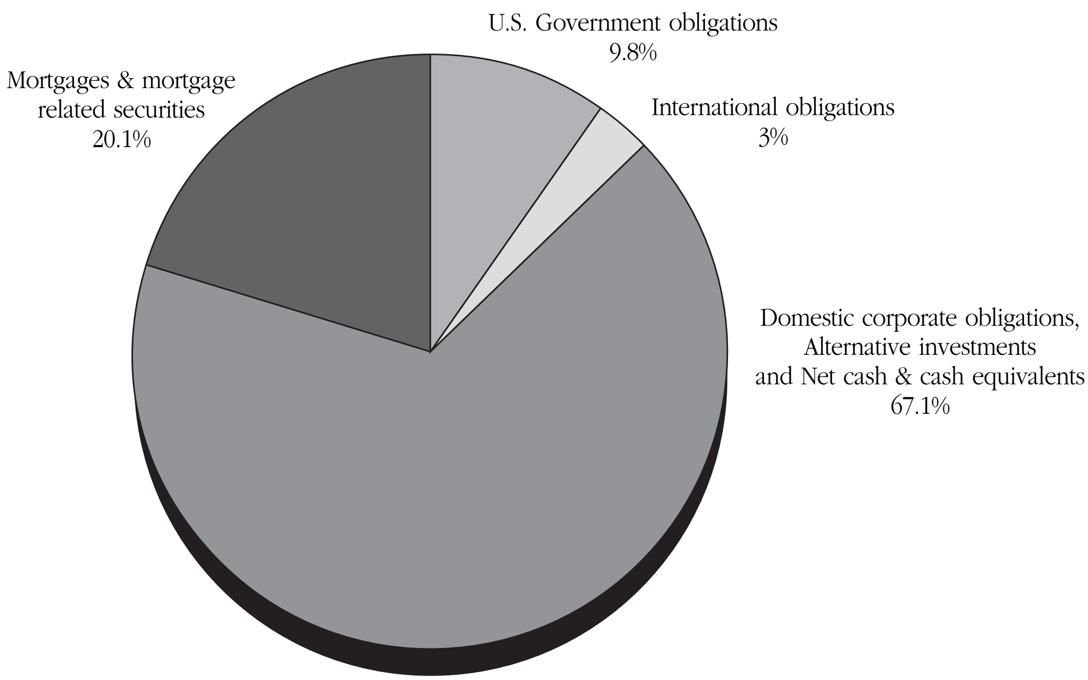
Real Estate

CB Richard Ellis Strategic Partners Europe Fund III
CB Richard Ellis Strategic Partners UK Fund III
CB Richard Ellis Strategic Partners US Value 5, LP
Chesapeake Limited Partnership
JER Europe Fund III, LP
JER Real Estate Partners Fund IV, LP
Lion Industrial Trust
Lubert Adler Real Estate Fund III
MGP Asia Fund III, LP
PRISA II (Prudential Real Estate Investors)
Secured Capital Japan Real Estate Partners Asia, LP

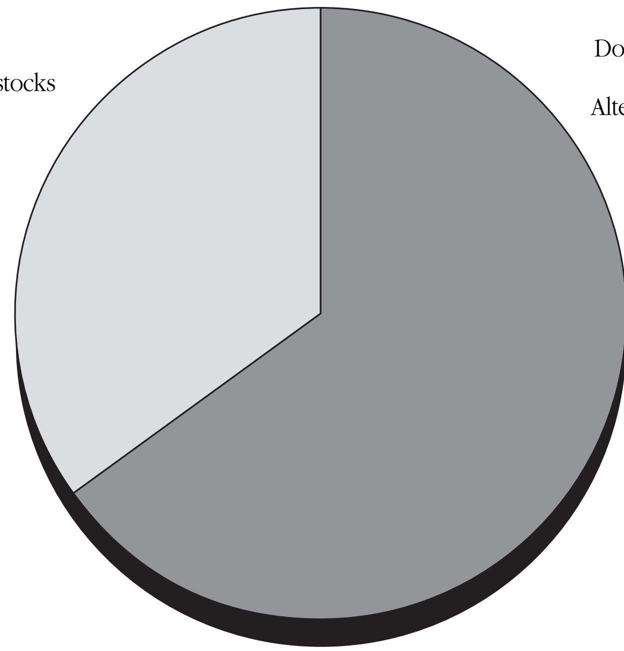
INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2008



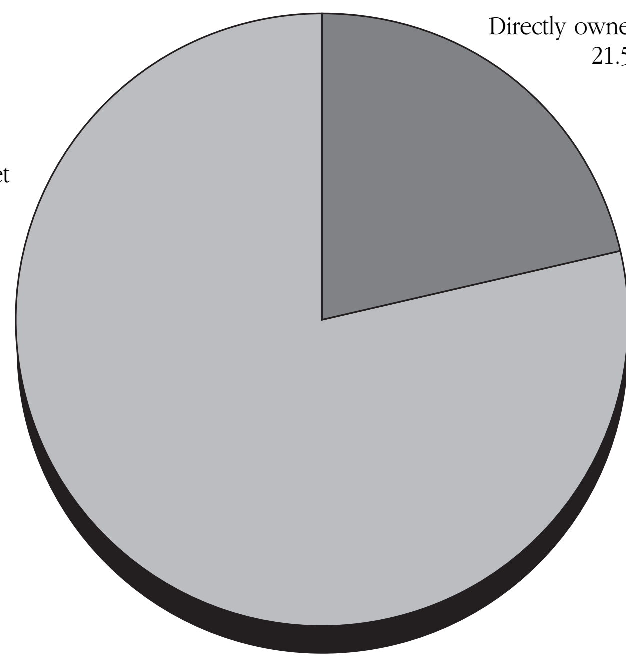
FIXED INCOME DISTRIBUTION BY TYPE
as of June 30, 2008



EQUITY DISTRIBUTION BY TYPE
as of June 30, 2008

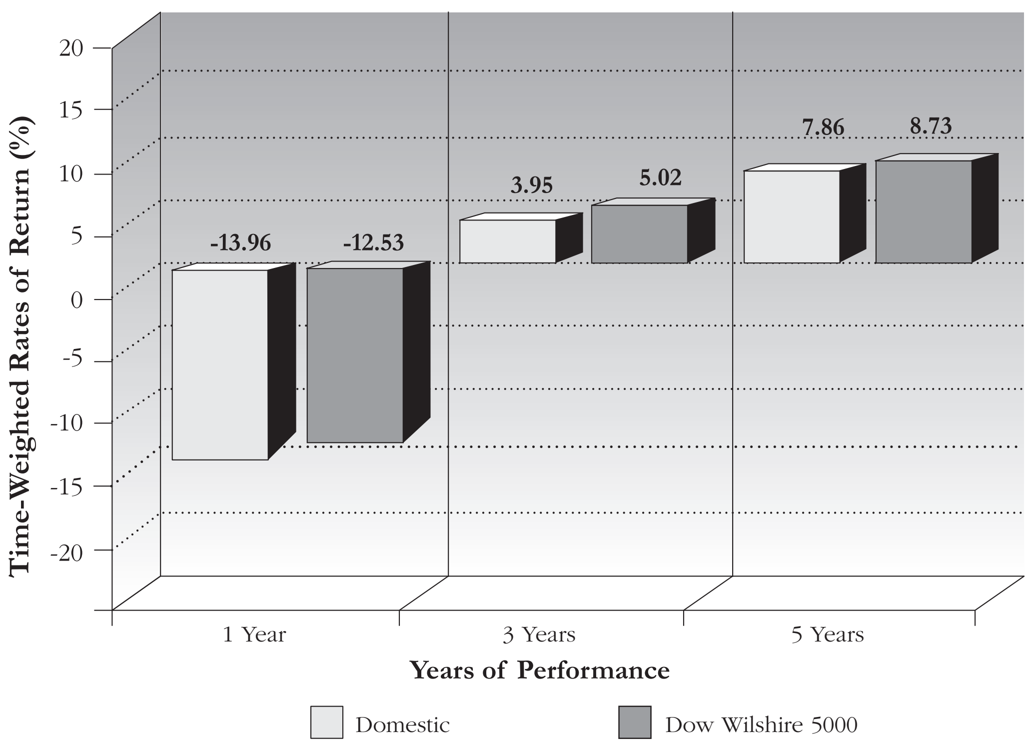


REAL ESTATE DISTRIBUTION BY TYPE
as of June 30, 2008

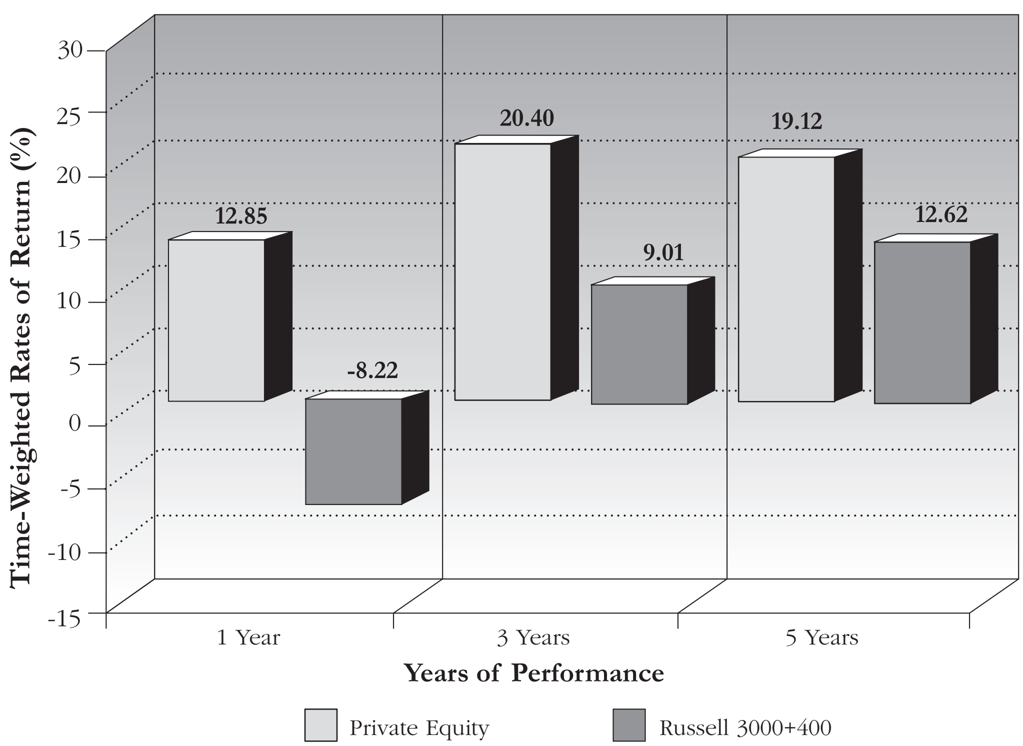


COMPARATIVE INVESTMENT RETURNS ENDING JUNE 30, 2008

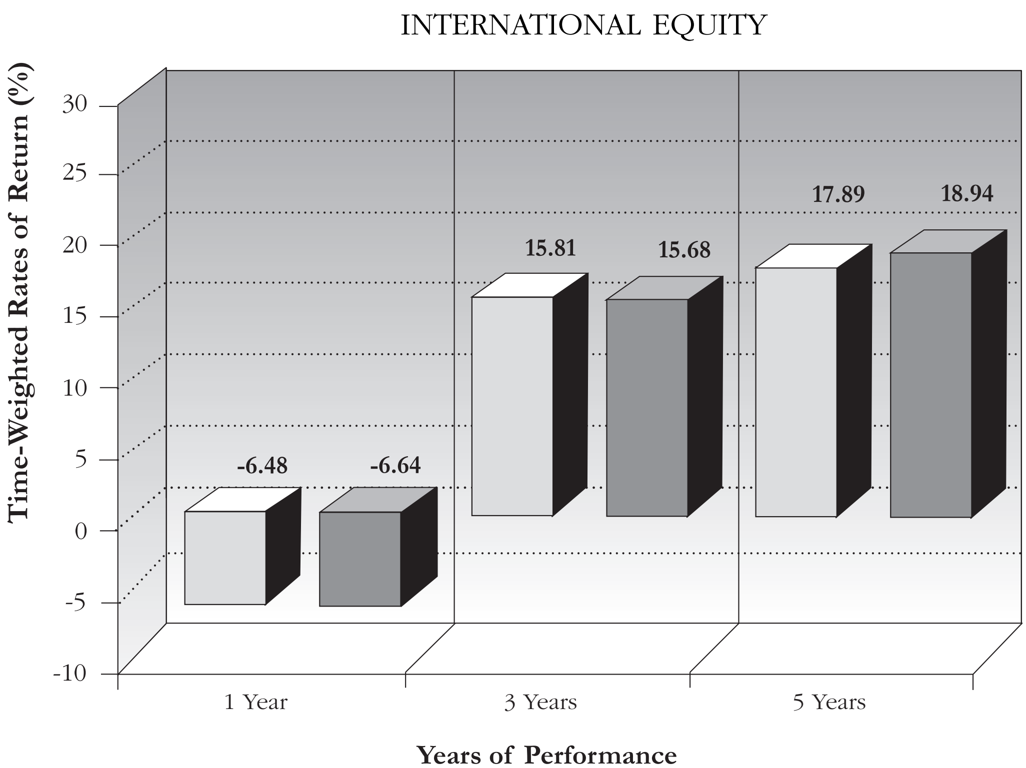
DOMESTIC EQUITY

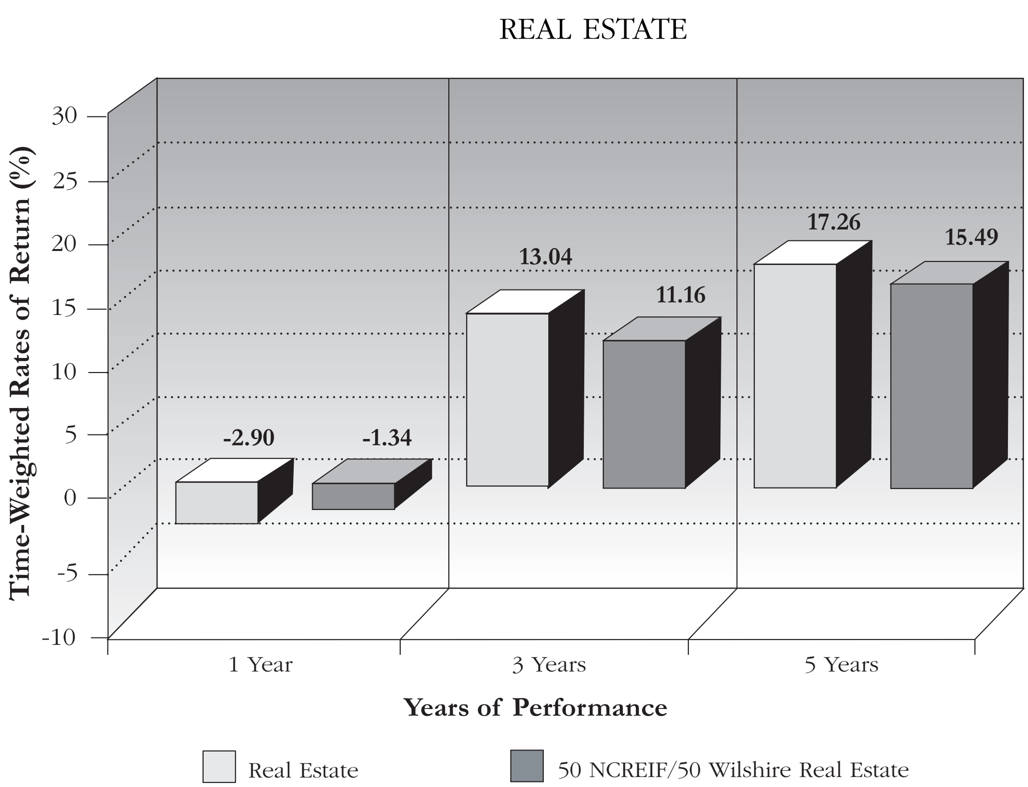


PRIVATE EQUITY



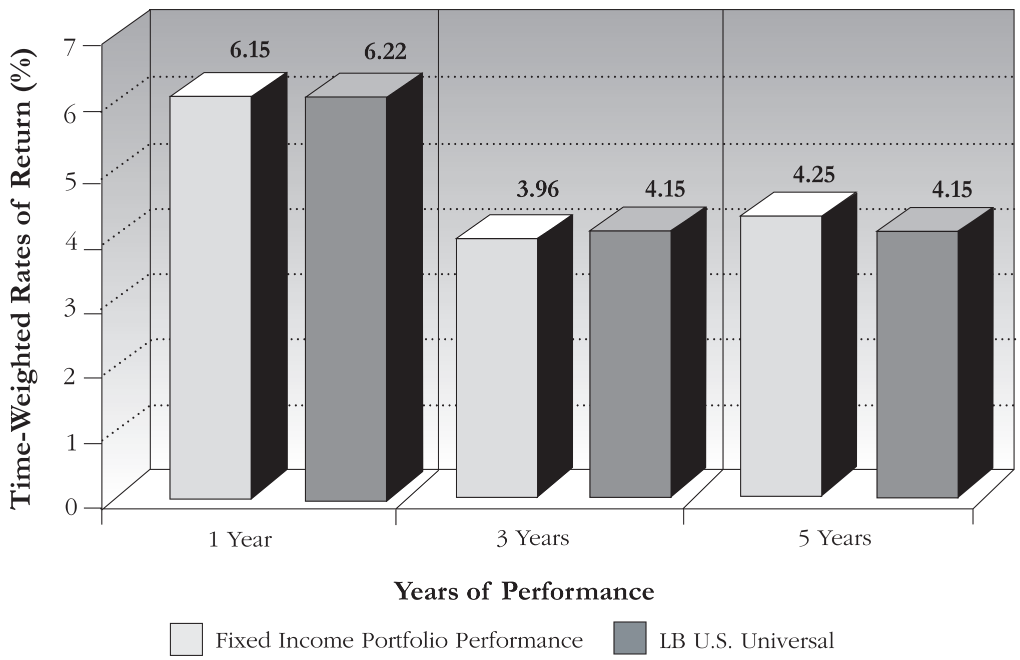
Comparative Investment Returns Ending June 30, 2008



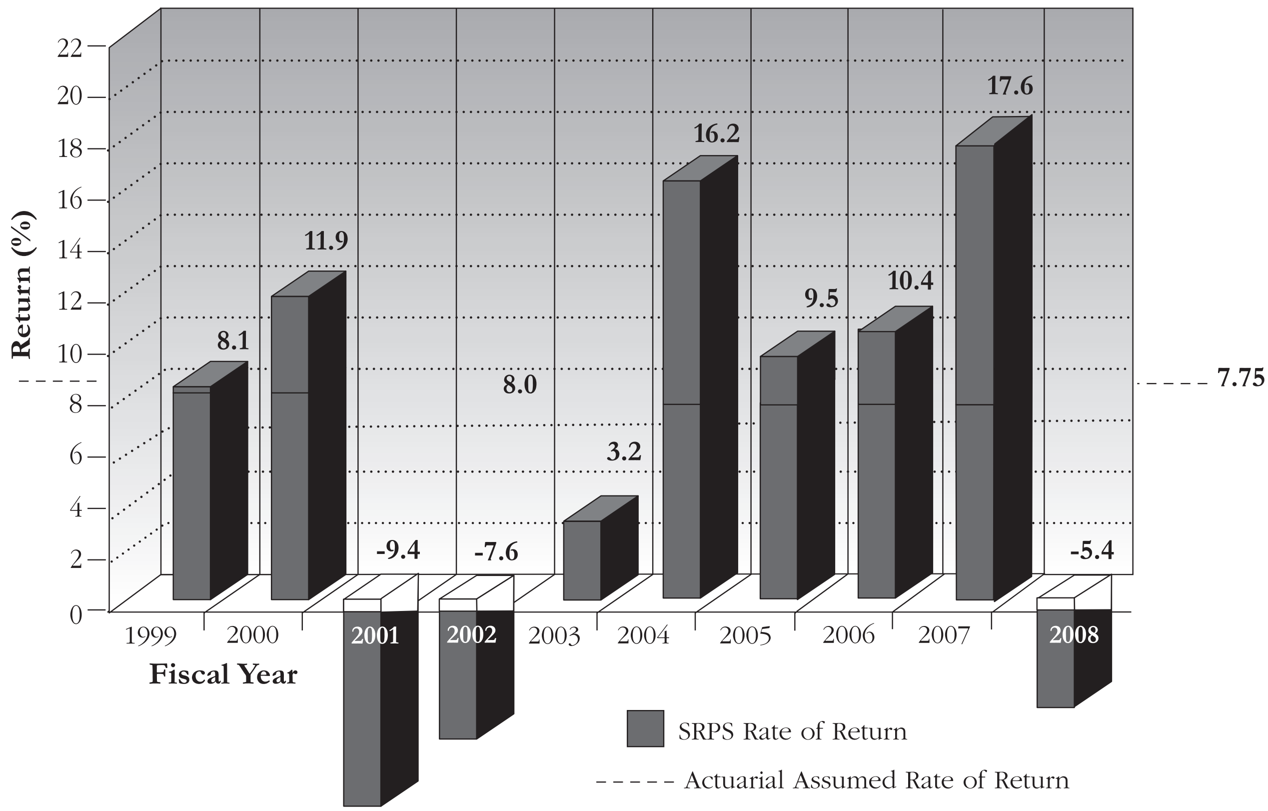


COMPARATIVE INVESTMENT RETURNS ENDING JUNE 30, 2008

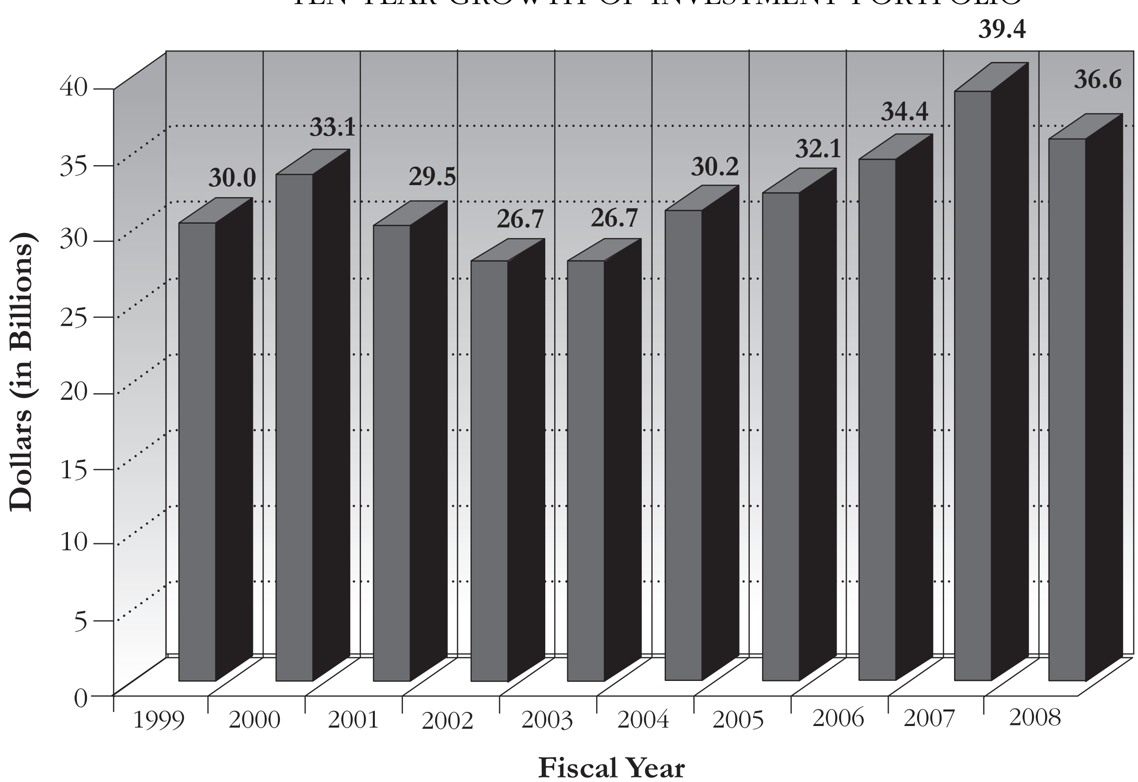
FIXED INCOME



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



LARGEST 25 HOLDINGS
as of June 30, 2008

EQUITY INCOME SECURITIES:	No. of Shares	Fair Value
Exxon Mobil Corporation	1,333,327	117,506,109
Google, Inc.	214,458	112,894,980
Amazon.Com, Inc	1,373,159	100,693,749
Microsoft Corporation	3,261,689	89,729,064
Petroleo Brasileiro SA	1,245,620	88,227,265
Nintendo Co.	137,600	77,753,314
SPDR Trust	582,700	74,573,946
Cisco Systems, Inc.	2,943,795	68,472,672
Oracle Corporation	3,178,479	66,748,059
Gazprom ADR Rep	1,136,430	65,912,940
Ebay Inc.	2,390,346	65,328,156
E On AG	312,627	63,121,495
Lukoil Oil Company	584,507	57,632,390
Nestle Sa	1,223,770	55,457,710
France Telecom	1,825,813	53,822,302
AES Corporation	2,777,500	53,355,775
Deere & Co.	692,044	49,917,134
Atlas Copco AB Ser A	3,348,103	49,397,648
General Electric Company	1,843,380	49,199,812
Hewlett Packard Co.	1,099,165	48,594,085
Sprint Nextel Corporation	5,109,616	48,541,352
Amgen Inc.	1,027,416	48,452,939
Gazprom O A O	822,205	47,687,890
Apple, Inc.	284,365	47,614,076
Companhia Vale Do Rio Doce	1,511,200	45,094,208
TOTAL		$1,645,729,070

FIXED INCOME SECURITIES	Par	Fair Value
Federal National Mortgage Assn., TBA 5.0%, due Dec. 1, 2099	229,823,000	219,732,345
Federal National Mortgage Assn., TBA 5.5%, due Dec. 1, 2099	140,600,000	138,199,916
United States Treasury Notes, 2.375% due April 15, 2011	118,597,064	125,657,301
Federal Home Loan Bank, 2.1% due July 9, 2008	124,580,000	124,532,709
United States Treasury Notes, 1.875% due July 15, 2013	107,936,543	114,127,732
United States Treasury Notes, 1.875% due July 15, 2015	105,242,951	110,176,214
Federal National Mortgage Assn., TBA 5.0%, due Dec. 1, 2099	100,520,000	96,318,576
United States Treasury Notes, 2.0% due January 15, 2016	84,266,242	88,773,356
United States Treasury Bonds, 2.375% due January 15, 2025	82,204,589	86,051,050
Federal Home Loan Bank, 0% due September 19, 2008	82,900,000	82,524,894
United States Treasury Notes, 3.5% due January 15, 2011	56,272,680	61,275,676
United States Treasury Bonds, 2.02% due August 27, 2008	44,355,675	57,047,094
United States Treasury Bonds, 2.0% due January 15, 2026	54,863,859	54,248,454
United States Treasury Bonds, 3.625% due April 15, 2028	42,493,760	52,858,256
Federal National Mortgage Assn., TBA 5.5% due December 1, 2099	48,700,000	49,023,397
Federal National Mortgage Assn., POOL 256673, 5.5% due April 1, 2037	49,622,684	48,971,386
Federal National Mortgage Assn., POOL 889579, 6.0% due May 1, 2038	47,243,502	47,719,627
United States Treasury Notes, 3.0% due July 15, 2012	38,583,965	42,378,054
Federal Home Loan, PC POOL G03696, 5.5% due January 1, 2038	41,868,946	41,275,925
Barclays US Funding LLC, 2.68% due September 2, 2008	38,500,000	38,236,318
Federal National Mortgage Assn., 2.2% due August 4, 2008	38,000,000	37,936,259
Government National Mortgage Assn., TBA 6.5% due December 1, 2099	35,843,000	36,890,289
Royal Bank of Scotland, 2.75% due September 24, 2008	37,100,000	36,839,269
BNP Paribas Financial Inc., 2.5% due July 1, 2008	36,500,000	36,497,465
Federal Home Loan, PC POOL G02976, 5.5% due June 1, 2037	35,828,415	35,320,951
TOTAL		$1,862,612,513

A complete list of portfolio holdings is available upon request.

DOMESTIC AND INTERNATIONAL EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

Brokers *	**Total Shares**	**Total Commission**
UBS	190,881	$1,109
Merrill Lynch	57,228	745
State Street Bank & Trust Co.	98,085	689
J P Morgan Securities	78,180	677
Credit Suisse First Boston	58,603	675
Goldman Sachs	34,389	650
Morgan Stanley	31,665	609
Citigroup Global Markets	55,496	579
Deutsche Bank	21,025	413
Lehman Brothers	26,357	372
Bear Stearns	12,307	314
Investment Technology Group	14,621	208
Credit Lyonnais Securities	20,256	203
Sanford C. Bernstein	5,717	197
Nomura	26,244	186
Macquarie Securities	27,286	151
Banc of America	4,909	146
Pershing	29,817	145
Societe Generale	4,966	137
Liquidnet	9,997	134
Instinet	10,741	132
ABN Amro	24,129	129
Credit Agricole Indosuez	5,721	112
Other Broker Fees	105,581	2,601
Total broker commissions	954,201	$11,313

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

For the fiscal year ended June 30, 2008, total domestic equity commissions averaged 1.68 cents per share, and total international equity commissions averaged 8.83 basis points per share.

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Actuarial Section

CHEIRON Classic Values, Innovative Advice

October 11, 2007
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 performed our annual actuarial valuation of the State Retirement & Pension System of Maryland as of June 30, 2008.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain relatively level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus a level percent of payroll amortization of the pre-2001 unfunded actuarial liability to the year 2020, and of each subsequent layer of unfunded actuarial liability (whether it arise from plan changes, assumption changes or gains/losses) over a 25 year period from the year it first arises. Maryland law now contains provisions (i.e. a corridor approach) to mitigate annual fluctuations in contribution rates. Due to this funding approach, the contribution rates currently being appropriated for the Employees' and Teachers' Combined Systems are lower than the actuarially determined rates for GASB 27 accounting purposes.

Assumptions

The actuarial assumptions used in this years' valuation have been recommended by the prior actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed during Fiscal Year 2006.

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

The results and conclusions of this report are only valid for the July 1, 2008 plan year and should not be interpreted as applying to future years. The actuarial assumptions reflect our understanding of the likely future experience of the plans in the program and the assumptions as a whole represent our best estimate for the future experience of the those plans. The accuracy of the results presented in this report is dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the plans could vary from our results.

Reliance on Others

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

Supporting Schedules

Certain information presented in the System's June 30, 2008 CAFR was derived from our June 30, 2008 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 2008 CAFR. Information pertaining to valuations prior to 2008 was determined by previous actuarial firms.

Certification

On the basis of the foregoing, we certify that, to the best of our 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 Code of Professional Conduct and applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board.

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

BOARD SUMMARY

This report presents the results of the June 30, 2008 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 2010;
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

This is the first year in which Cheiron has prepared the actuarial valuation for the State Retirement and Pension system of Maryland. The numbers displayed under the 2007 column headings are those produced by the Segal Group as contained in their revised report dated June 6, 2008.

Asset returns in this summary report have been calculated on a dollar-weighted basis, which recognizes the cashflows into and out of the fund over the course of the year; thus, the return rate of negative 5.25% for the fiscal year ended June 30, 2008 thus developed and presented throughout this summary report differs from the time-weighted return of negative 5.4% for the same period.

As a result of System's assets earning a **negative 5.25%**, considerably below the 7.75% assumption. The System has a total unfunded actuarial liability of **$10,740** million as of June 30, 2008. This compares to a **$9,257** million liability measured at the June 30, 2007 valuation. In relative terms, the overall System funding ratio of assets to liabilities fell from **80.37%** in 2007, to **78.62%** this year.

As a function of the asset smoothing method, the resulting impact from this year's investment performance was minimized. The actuarial, or smoothed, rate of return measured from this past year was a **positive 6.47%,** or approximately 1.3% less than our assumption. This investment loss results in an increase in the unfunded liability of **$504 million** more than expected. Combined with a liability loss of **$565** million, the total System plan experienced a net loss of **$1,069** million.

The Teachers Combined System and the State portion of the Employees Combined System are funded using a corridor method. Under this funding approach, the State appropriation was fixed at the June 30, 2000 valuation rate for as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded (funded defined as the ratio of actuarial asset value divided by the actuarial accrued liability). Once the ratio falls outside of this corridor, the appropriated rate has been annually adjusted towards the underlying actuarially calculated rate. The results of this valuation report disclose that actuarially calculated rate which will be used for purposes of disclosing the Annual Required Contribution rate defined 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 rate where applicable.

Finally, while the results this year are not positive, we emphasize that financing of any retirement system is a long-term proposition, and that annual fluctuations are to be expected, and should not by themselves be cause for concern. We continue to maintain that the overall System's financial condition is sound. The continued applicability of the corridor method should be questioned, since its original intent was to maintain a certain level of funding. Now that the funding has dropped below 100%, the corridor method continues to maintain that funding level which may not be the appropriate goal.

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. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80% nor more than 110% of the market value of assets. In periods of high returns, this method significantly discounts the amount of asset gains above the assumed return of 7.75%. Conversely, in periods of returns below assumed, the losses are discounted. The primary advantage of this smoothing technique is contribution stability.

For the plan year ending June 30, 2008, the dollar-weighted market returns were a **negative 5.25%**, however the smoothed assets returned a **positive 6.47%**. This resulted in the Fund experiencing an investment loss of **$5,073** million using the market value. The actuarial or smoothed basis produced a loss of **$504** 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, 2007 Value	$39,445	$37,887
Employer Contributions	1,048	1,048
Member Contributions	420	420
Benefit Payments	(2,253)	(2,253)
Expected Investment Earnings (7.75%)	3,027	2,906
Expected Value June 30, 2008	$41,687	$40,008
INVESTMENT GAIN (LOSS)	(5,073)	(504)
June 30, 2008 Value	$36,614	$39,504

Liabilities (State and Municipal)

Three different measures of liabilities are calculated for this fund: a present value of all future benefits (PVB), an actuarial accrued liability (AAL) under the entry age normal cost method (EAN), and an accounting liability or present value of accrued benefit (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 2008, the actuarial liabilities experienced an overall loss of **$565 million**, which is **1.13%** of the total actuarial liability being measured. The primary cause for liability experience were salary increases higher than expected, new hires who enter the valuation with an average of ½ year of service and more retirements than anticipated.

LIABILITIES (In Millions)	**Total Value (PVB)**	**Actuarial (EAN)**	**Accounting (PVAB)**
June 30, 2007	$57,704	$47,144	$41,010
June 30, 2008	$60,796	$50,244	$43,495

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, 2007 and June 30, 2008, as well as the corresponding funding ratios for each (assets divided by liabilities).

Item (In Millions)	**Actuarial**	**PVAB**
6/30/2007 Net Surplus (Unfunded)	($9,257)	($1,565)
Funding Ratio	80.4%	96.2%
6/30/2008 Net Surplus (Unfunded)	($10,740)	($6,882)
Funding Ratio	78.6%	84.2%

CONTRIBUTIONS (State Pension)

In our report, we show the various contribution rates by system. In this summary, we present overall the State contribution rate, and compare it to the rate developed in the June 30, 2007 actuarial valuation. In summary, due to the net impact of investment losses and liability losses, the overall System contribution requirement, payable in FY 2010, has increased by **0.53%** of payroll. This analysis compares the corridor cost calculations which will be used to make appropriations. This approach produced payroll-weighted averages of **12.09%** at June 30, 2007, increasing to 12.62% as of June 30, 2008.

Rate as Percent of Covered Payroll	
June 30, 2007 State Rate	12.09%
Increase due to Plan Changes	0.00%
Increase due to Investment Loss	0.32%
Increase due to Liability Loss	0.42%
Decrease due to Other	(0.21%)
June 30, 2008 State Rate	12.62%

Membership (State and Municipal)

There are three types of plan participants, current active workers, previous terminations who retain a right to a deferred vested benefit, and participants in pay status. Below, we compare totals in each group between June 30, 2007 and 2008.

As shown below, there was an overall increase in participation during the year of **1.9%**.

	6/30/2008	**6/30/2007**	**Change**
Active Participants	199,255	196,262	1.5%
Retirees Members & Beneficiaries	112,422	108,355	3.8%
Participants In Pay Status	51,795	52,027	(0.4%)
TOTAL PARTICIPANTS	363,472	356,644	1.9%

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 2008, on the System's assets and liabilities, annual cash flows in an out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

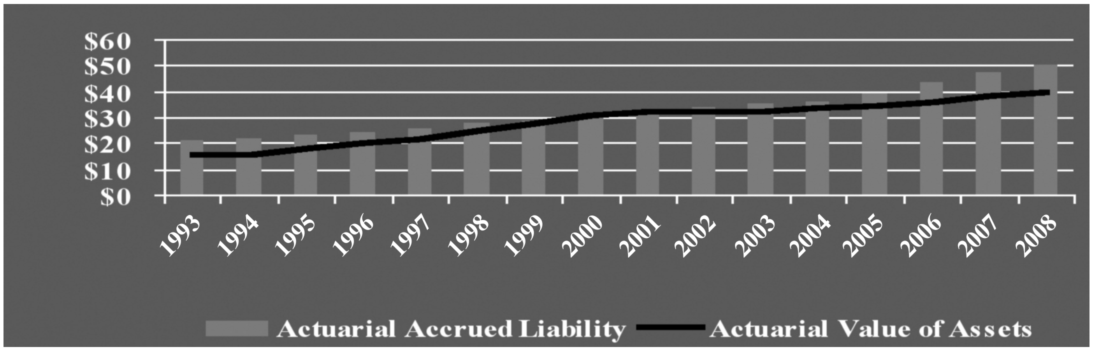


Chart B:
Cash Flows

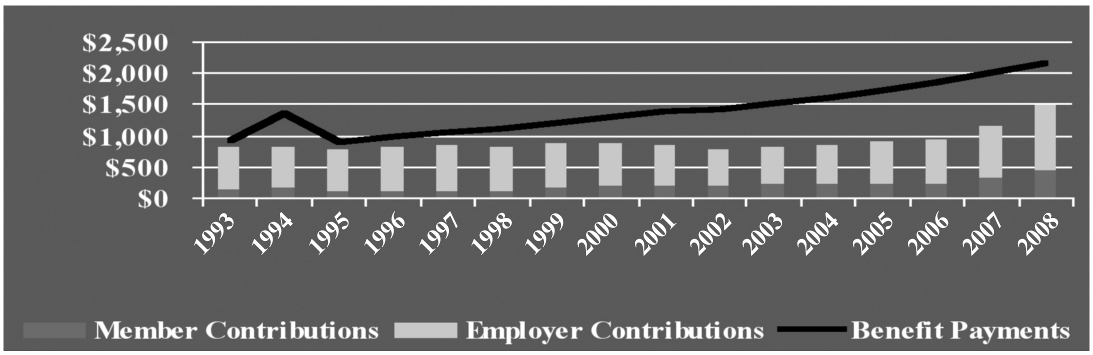
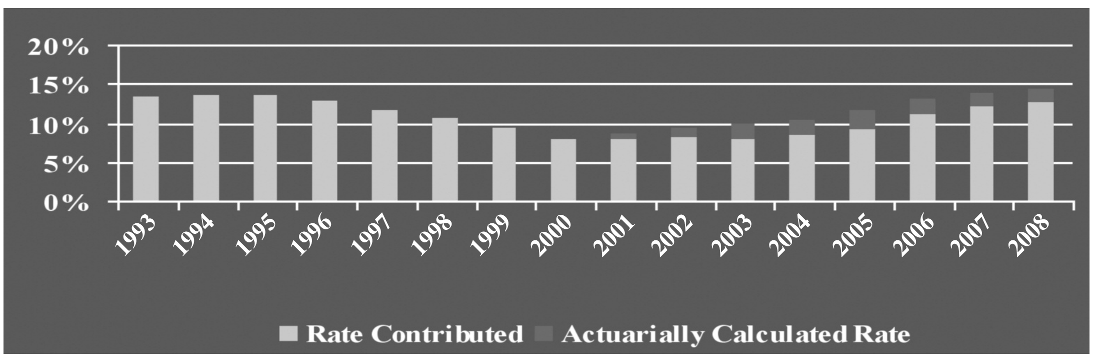


Chart C:
State Contribution Rate



Comments

Chart A presents a comparison of the actuarial value of assets with the actuarial accrued liability each year. Both values have risen steadily since the early 90's as the System has matured. The increase in liability relative to the asset increase in the last few years is the result of two key factors. These are: the benefit enhancements recognized in 2006, the changes in assumptions and funding method reflected in 2007.

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 at a slower rate. The ECS contribution rate started increasing in FY 2006 and the TCS contribution rate began increasing in FY 2007 under the corridor method. Additional employee contributions will increase as the employee contribution rate increase under the new plan provisions.

Finally, Chart C reflects the State contribution rate which is used each year to determine the upcoming fiscal year State appropriation. For example, the rate shown for the 2008 valuation will apply to FY 2010. It shows the impact of the 1990'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. Plan amendments and assumption and method changes are not subject to the corridor method. 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 2010 would be 1.80% of payroll higher than the amount to be budgeted under the corridor method.

ACTUARIAL METHODS AND ASSUMPTIONS

Funding Method

The System uses the entry age normal cost method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate (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 12-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 23 years.

Asset Valuation Method

Assets are valued for funding purposes by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets.

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, 2008:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2003);
- projected salary increases of 3.5% compounded annually, attributable to inflation (adopted June 30, 2007);
- additional projected salary increases ranging from 0.00% to 8.50% per year attributable to seniority and merit (adopted June 30, 2007);
- 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 2003 through 2006 (adopted June 30, 2007); and
- an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

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

Item	June 30, 2008	June 30, 2007	% Change
A. FASB No. 35 Basis			
1. Present Value of Benefits Accrued and Vested to Date			
a. Members Currently Receiving Payments	$26,024,615,048	$24,546,694,703	6.0%
b. Former Vested Members	1,199,988,380	1,244,151,942	(3.5%)
c. Active Members	16,270,811,666	15,219,344,588	6.9%
d. Total PVAB (1(a)+1(b)+1(c))	43,495,415,094	41,010,191,233	6.1%
2. Assets at Market Value	36,613,710,023	39,444,781,232	7.2%
3. Unfunded Present Value of Accrued Benefits (2-3)	$ 6,881,705,071	$ 1,565,410,001	339.6%
4. Ratio of Assets to Value of Benefits (3/2)	84.18%	96.18%	
B. GASB No. 25 Basis			
1. Actuarial Accrued Liabilities for Retirees and Beneficiaries Currently Receiving Benefits and Terminated Vested Employees	$27,224,603,428	$25,790,846,645	5.6%
2. Actuarial Accrued Liabilities for Current Employees	23,019,443,779	21,353,507,213	7.8%
3. Total Actuarial Accrued Liability (1+2)	50,244,047,207	47,144,353,858	6.6%
4. Net Actuarial Assets Available for Benefits	39,504,284,202	37,886,935,596	4.3%
5. Unfunded Actuarial Accrued Liability	$10,739,763,005	$ 9,257,418,262	16.0%

Note: Cheiron produced the 2008 figures. Prior amounts prepared by previous actuaries.

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
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
2006	2,217,897,868	22,086,452,920	18,939,141,669	43,243,492,457	35,795,025,134
2007	2,489,643,667	25,790,846,645	18,863,863,688	47,144,354,000	37,886,935,596
2008	2,787,163,875	27,224,603,428	20,232,279,697	50,244,047,000	39,504,284,202

SUMMARY OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

(STATE AND MUNICIPAL)

Fiscal Year Ended	Added to Rolls: Number	Added to Rolls: Annual Allowance	Removed from Rolls: Number	Removed from Rolls: Annual Allowances	Rolls-End of Year: Number	Rolls-End of Year: Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
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
2006	6,822	164,369,688	3,247	34,799,179	103,831	1,859,904,684	7.49	17.913
2007	5,967	177,884,598	1,443	17,852,392	108,355	2,019,936,890	8.60	18,642
2008	7,310	205,072,079	3,243	48,851,264	112,422	2,176,157,705	7.73	19,357

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%	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
100	100	60.67	82.78	7,448,467,323	9,287,575,596	80
100	100	50.93	80.36	9,257,418,404	9,971,012,066	93
100	100	46.92	78.62	10,739,762,798	10,542,806,018	102

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, 2007	$ 41,010
Increase (decrease) during year attributable to:	
Passage of Time	3,091
Benefits Paid – FY 2008	(2,253)
Benefits Accrued, Other Gains/Losses	1,647
Plan Amendment & Changes in Actuarial Assumptions	0
Net Increase	2,485
Actuarial present value of accrued benefits at June 30, 2008	$ 43,495

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

(STATE AND MUNICIPAL)

as of June 30, 2008

Summary of Principal Plan Results

	June 30, 2008	June 30, 2007	% Change
1. Participant Counts			
Active Members	199,255	196,262	1.5%
Retired Members and Beneficiaries	112,422	108,355	3.8%
Vested Former Members	51,795	52,027	(0.4%)
Total	363,472	356,644	1.9%
Covered Annual Salaries of Active Members	$10,542,806,018	$ 9,971,012,066	5.7%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 2,176,157,705	$ 2,019,936,890	7.7%
2. Assets and Liabilities			
Total Actuarial Liability	$50,244,047,207	$47,144,353,858	6.6%
Assets for Valuation Purposes	39,504,284,202	37,886,935,596	4.3%
Unfunded Actuarial Liability	$10,739,763,005	$ 9,257,418,262	16.0%
Funding Ratio	78.6%	80.4%	
Present Value of Accrued Benefits	$43,495,415,094	$41,010,191,233	6.1%
Market Value of Assets	36,613,710,023	39,444,781,232	(7.2%)
Unfunded FASB Accrued Liability	$ 6,881,705,071	$ 1,565,410,001	339.6%
Accrued Benefit Funding Ratio	84.2%	96.2%	

REPORT OF THE ACTUARY ON THE VALUATION OF THE TEACHERS' COMBINED SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2008

Summary of Principal Plan Results

	June 30, 2008	June 30, 2007	% Change
1. Participant Counts			
Active Members	105,961	103,577	2.3%
Retired Members and Beneficiaries	54,035	52,039	3.8%
Vested Former Members	22,818	22,719	0.4%
Total	182,814	178,335	2.5%
Covered Annual Salaries of Active Members	$ 6,117,590,424	$ 5,709,765,331	7.1%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 1,302,456,748	$ 1,213,307,292	7.3%
2. Assets and Liabilities			
Total Actuarial Liability	$29,868,704,554	$28,122,547,855	6.2%
Assets for Valuation Purposes	23,784,403,753	22,814,759,559	4.3%
Unfunded Actuarial Liability (Surplus)	$ 6,084,300,801	$ 5,307,815,296	14.6%
Funding Ratio	79.6%	81.1%	
Present Value of Accrued Benefits	$25,454,365,719	$24,167,855,817	5.3%
Market Value of Assets	22,058,961,997	23,777,998,866	(7.2%)
Unfunded FASB Accrued Liability	$ 3,395,403,722	$ 389,856,951	770.9%
Accrued Benefit Funding Ratio	86.7%	98.4%	

REPORT OF THE ACTUARY ON THE VALUATION OF THE
EMPLOYEES' COMBINED SYSTEM OF THE STATE OF MARYLAND
(STATE AND MUNICIPAL)
as of June 30, 2008
Summary of Principal Plan Results

	June 30, 2008	June 30, 2007	% Change
1. Participant Counts			
Active Members	89,202	88,699	0.6%
Retired Members and Beneficiaries	54,920	53,039	3.5%
Vested Former Members	28,725	29,107	(1.3%)
Total	172,847	170,845	1.2%
Covered Annual Salaries of Active Members	$ 4,165,012,635	$ 4,016,220,721	3.7%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 734,343,434	$ 678,646,762	8.2%
2. Assets and Liabilities			
Total Actuarial Liability	$17,609,769,165	$16,385,823,014	7.5%
Assets for Valuation Purposes	13,599,717,089	13,026,321,045	4.4%
Unfunded Actuarial Liability (Surplus)	$ 4,010,052,076	$ 3,359,501,969	19.4%
Funding Ratio	77.2%	79.5%	
Present Value of Accrued Benefits	$15,371,268,908	$14,307,265,472	7.4%
Market Value of Assets	12,617,280,261	13,579,541,190	(7.1%)
Unfunded FASB Accrued Liability (Surplus)	$ 2,753,988,647	$ 727,724,282	278.4%
Accrued Benefit Funding Ratio	82.1%	94.9%	

REPORT OF THE ACTUARY ON THE VALUATION OF THE STATE POLICE RETIREMENT SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2008

Summary of Principal Plan Results

	June 30, 2008	June 30, 2007	% Change
1. Participant Counts			
Active Members	1,426	1,416	0.7%
Retired Members and Beneficiaries	2,149	2,063	4.2%
Vested Former Members	61	54	13.0%
Total	3,636	3,533	2.9%
Covered Annual Salaries of Active Members	86,464,247	83,190,937	3.9%
Annual Retirement Allowances for Retired Members and Beneficiaries	87,639,631	81,578,853	7.4%
2. Assets and Liabilities			
Total Actuarial Liability	$1,601,575,853	$1,516,934,761	5.6%
Assets for Valuation Purposes	1,343,208,496	1,334,374,954	0.7%
Unfunded Actuarial Liability (Surplus)	$ 258,367,357	$ 182,559,807	41.5%
Funding Ratio	83.9%	88.0%	
Present Value of Accrued Benefits	$1,571,642,305	$ 1,483,497,639	5.9%
Market Value of Assets	1,222,164,139	1,354,584,328	(9.8%)
Unfunded FASB Accrued Liability (Surplus)	$ 349,478,166	$ 128,913,311	171.1%
Accrued Benefit Funding Ratio	77.8%	91.3%	

REPORT OF THE ACTUARY ON THE VALUATION OF THE PENSION PLAN OF JUDGES AND THEIR SURVIVING SPOUSES **as of June 30, 2008**

Summary of Principal Plan Results

	June 30, 2008	June 30, 2007	% Change
1. Participant Data			
Active Members	286	297	(3.7%)
Retired Members and Beneficiaries	342	335	2.1%
Vested Former Members	8	13	(38.5%)
Total	636	645	(1.4%)
Covered Annual Salaries of Active Members	$ 37,943,327	$ 37,638,491	0.8%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 23,135,728	$ 21,264,343	8.8%
2. Assets and Liabilities			
Total Actuarial Liability	$406,781,743	$371,987,374	9.4%
Assets for Valuation Purposes	306,716,176	293,051,654	4.7%
Unfunded Actuarial Liability (Surplus)	$100,065,567	$ 78,935,720	26.8%
Funding Ratio	75.4%	78.8%	
Present Value of Accrued Benefits	$392,392,720	$363,900,519	7.8%
Market Value of Assets	283,759,913	302,939,369	(6.3%)
Unfunded FASB Accrued Liability (Surplus)	$108,632,807	$ 60,961,150	78.2%
Accrued Benefit Funding Ratio	72.3%	83.2%	

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

as of June 30, 2008

Summary of Principal Plan Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Active Members	2,327	2,217	5.0%
Retired Members and Beneficiaries	958	863	11.0%
Vested Former Members	174	127	37.0%
Total	3,459	3,207	(7.9%)
Covered Annual Salaries of Active Members	$133,445,391	$122,015,164	9.4%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 28,250,389	$ 24,853,311	13.7%
2. Assets and Liabilities			
Total Actuarial Liability	$748,005,298	$738,548,856	1.3%
Assets for Valuation Purposes	465,386,285	414,152,846	12.4%
Unfunded Actuarial Liability (Surplus)	$282,619,013	$324,396,010	(12.9%)
Funding Ratio	62.2%	56.1%	
Present Value of Accrued Benefits	$697,424,997	$680,135,670	2.5%
Market Value of Assets	426,877,468	425,110,452	0.4%
Unfunded FASB Accrued Liability (Surplus)	$270,547,529	$255,025,218	6.1%
Accrued Benefit Funding Ratio	61.2%	62.5%	

REPORT OF THE ACTUARY ON THE VALUATION OF THE LOCAL FIRE AND POLICE SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2008

Summary of Principal Plan Results

	June 30, 2008	June 30, 2007	% Change
1. Participant Data			
Active Members	53	56	(5.4%)
Retired Members and Beneficiaries	18	16	12.5%
Vested Former Members	9	7	28.6%
Total	80	79	1.3%
Covered Annual Salaries of Active Members	$2,349,994	$2,181,422	7.7%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 331,775	$ 286,329	15.9%
2. Assets and Liabilities			
Total Actuarial Liability	$9,210,594	$8,484,998	8.6%
Assets for Valuation Purposes	4,852,403	4,275,538	13.5%
Unfunded Actuarial Liability (Surplus)	$4,358,191	$4,209,460	3.5%
Funding Ratio	52.7%	50.4%	
Present Value of Accrued Benefits	$8,320,445	$7,536,116	10.4%
Market Value of Assets	4,666,245	4,607,027	1.3%
Unfunded FASB Accrued Liability (Surplus)	$3,654,200	$2,929,089	24.8%
Accrued Benefit Funding Ratio	56.1%	61.1%	

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
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
2006	5,449	413,849,937	75,950	2.23
2007	4,788	383,619,438	80,121	5.49
2008	4,125	352,954,397	85,565	6.79

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2006	94,869	4,855,335,579	51,179	2.04
2007	98,789	5,326,145,893	53,914	5.34
2008	101,836	5,764,636,027	56,607	4.99

Employees' Retirement
(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2006	10,121	467,808,791	46,222	7.66
2007	9,980	472,525,475	47,347	2.44
2008	9,740	472,800,066	48,542	2.52

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
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
2006	76,979	3,325,316,541	43,198	4.07
2007	78,719	3,543,695,246	45,017	4.21
2008	79,462	3,692,212,569	46,465	3.22

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2006	296	35,939,104	121,416	1.01
2007	297	37,638,491	126,729	4.38
2008	286	37,943,327	132,669	4.69

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2006	1,441	80,648,855	55,967	3.77
2007	1,416	83,190,937	58,751	4.97
2008	1,426	86,464,247	60,634	3.21

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
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
2006	2,063	106,668,684	51,706	6.17
2007	2,217	122,015,164	55,036	6.44
2008	2,327	133,445,391	57,347	4.20

Local Fire and Police

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2006	55	2,008,605	36,520	(0.18)
2007	56	2,181,422	38,954	6.66
2008	53	2,349,994	44,340	13.83

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Statistical Section

The Maryland State Retirement and Pension System (MSRPS) is implementing GASB Statement 44, Economic Condition Reporting: The Statistical Section. This statement establishes standardized reporting requirements relative to the supplementary information provided in this section in an effort to improve the understandability and usefulness of the information presented. GASB Statement 44 further states that the purpose of the. Statistical Section is to provide historical perspective, context, and detail to assist readers in using the information in the financial statements and the notes to the financial statements to better understand and assess the System's overall economic condition. The schedules within the Statistical Section are classified into the following four categories: Financial Trends, Revenue Capacity, Demographic and Economic information, and Operating Information.

The schedules beginning on page 89 show financial trend information to assist users in understanding and assessing how the MSRPS's financial position has changed over the past 10 years. The financial trend schedules presented are:

- Changes in Net Assets
- Benefits Expense by Type

The schedules beginning on page 90 show demographic and economic information and operating information. The demographic and economic information is intended to assist users in understanding the environment in which MSRPS operates. The operating information is intended to provide contextual information about MSRPS's operations to assist readers in using financial statement information.
The demographic and economic information and the operating information presented include:

- Schedule of Average Benefit Payments .
- Funding Progress
- Contribution Rates by Plan
- Schedule of Retired Members by Type
- Schedule of Active Membership by Plan
- Schedule of Retirees and Beneficiaries by Plan
- Revenues by Source and Expenses by Type
- Revenues vs. Experises
- Principal Participating Employers

TEN-YEAR HISTORY OF CHANGES IN NET ASSETS

for the Years Ended June 30,

(dollars in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Employer contributions	$693,353	$ 682,422	$ 634,309	$ 581,371	$ 606,900	$ 632,052	$ 670,554	$ 720,876	$ 833,782	$ 1,047,963
Members contributions	162,342	182,507	189,769	199,304	207,584	204,158	208,997	215,077	319,274	420,461
Net Investment income	2,225,398	3,487,722	(3,138,763)	(2,265,315)	756,747	4,202,632	2,766,389	3,225,649	5,924,070	2,139,662
Total Additions	3,081,093	4,352,651	(2,314,685)	(1,484,640)	$1,571,231	5,038,842	3,645,940	4,161,602	7,077,126	(671,238)
Deductions										
Benefit payments	1,115,086	1,190,954	1,272,804	1,372,325	1,474,257	1,570,622	1,697,397	1,829,468	1,965,872	2,120,463
Refunds	16,898	16,805	16,977	17,476	16,310	11,942	19,162	16,455	16,021	16,223
Administrative expenses	24,742	19,751	24,823	20,064	21,352	17,376	22,386	18,579	21,271	23,147
Total Deductions	1,156,726	1,227,510	1,314,604	1,409,865	1,511,919	1,599,940	1,738,945	1,864,502	2,003,164	2,159,833
Changes in net assets	$1,924,367	$3,125,141	$(3,629,289)	$(2,894,505)	$ 59,312	$3,438,902	$1,906,995	$2,297,100	$5,073,962	$(2,831,071)

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
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
2006	1,479,107	101,395	8,655	48,351	152,900	24,036	15,124	1,829,468
2007	1,597,722	102,972	10,133	52,505	166,561	24,695	11,284	1,965,872
2008	1,714,059	118,215	8,908	59,908	176,802	28,052	14,519	2,120,463

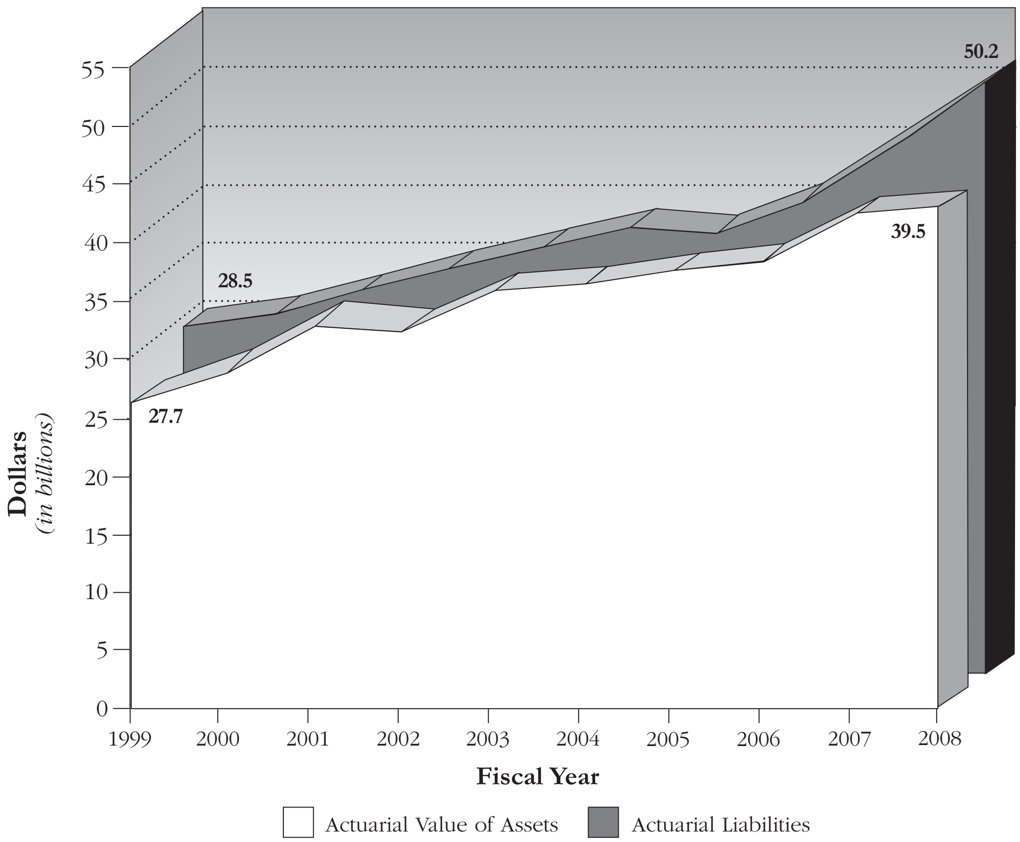
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

Average Benefit Payments – *Last Ten Years*

Years Credited Service

	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/1998 to 6/30/1999							
Average monthly benefit	$ 303	$ 381	$ 659	$ 1,027	$ 1,684	$ 2,514	$ 2,285
Monthly final average salary	$ 1,974	$ 2,092	$ 2,681	$ 2,900	$ 3,546	$ 4,302	$ 3,709
Number of rrtired members	143	486	548	666	904	1,175	555
Period 7/1/1999 to 6/30/2000							
Average monthly benefit	$ 269	$ 401	$ 661	$ 1,030	$ 1,621	$ 2,468	$ 2,401
Monthly final average salary	$ 1,746	$ 2,148	$ 2,641	$ 2,989	$ 3,539	$ 4,279	$ 3,987
Number of retired members	147	544	589	644	881	1,533	615
Period 7/1/2000 to 6/30/2001							
Average monthly benefit	$ 301	$ 387	$ 688	$ 1,066	$ 1,732	$ 2,496	$ 2,211
Monthly final average salary	$ 2,091	$ 2,260	$ 2,822	$ 3,201	$ 3,617	$ 4,419	$ 3,761
Number of retired members	183	575	584	657	924	1,560	670
Period 7/1/2001 to 6/30/2002							
Average monthly benefit	$ 327	$ 423	$ 739	$ 1,111	$ 1,534	$ 2,495	$ 2,349
Monthly final average salary	$ 1,951	$ 2,389	$ 2,999	$ 3,365	$ 3,689	$ 4,584	$ 4,091
Number of retired members	178	555	645	662	856	1,471	685
Period 7/1/2002 to 6/30/2003							
Average monthly benefit	$ 282	$ 463	$ 750	$ 1,087	$ 1,605	$ 2,527	$ 2,287
Monthly final average salary	$ 2,062	$ 2,521	$ 3,195	$ 3,597	$ 3,859	$ 4,774	$ 4,200
Number of retired members	242	595	671	731	884	1,453	858
Period 7/1/2003 to 6/30/2004							
Average monthly benefit	$ 295	$ 452	$ 767	$ 1,066	$ 1,616	$ 2,520	$ 2,433
Monthly final average salary	$ 2,416	$ 2,634	$ 3,287	$ 3,640	$ 4,000	$ 4,949	$ 4,585
Number of retired members	273	669	669	795	1,009	1,530	1,172
Period 7/1/2004 to 6/30/2005							
Average monthly benefit	$ 349	$ 509	$ 742	$ 1,105	$ 1,591	$ 2,510	$ 2,361
Monthly final average salary	$ 2,461	$ 2,818	$ 3,392	$ 3,882	$ 4,136	$ 5,071	$ 4,615
Number of retired members	254	710	689	878	986	1,552	1,368
Period 7/1/2005 to 6/30/2006							
Average monthly benefit	$ 303	$ 525	$ 819	$ 1,360	$ 1,555	$ 2,426	$ 2,439
Monthly final average salary	$ 2,409	$ 2,852	$ 3,425	$ 4,031	$ 4,183	$ 5,147	$ 4,782
Number of retired members	261	713	702	850	872	1,454	1,319
Period 7/1/2006 to 6/30/2007							
Average monthly benefit	$ 457	$ 637	$ 868	$ 1,253	$ 1,696	$ 2,499	$ 2,256
Monthly final average salary	$ 457	$ 3,425	$ 3,733	$ 4,249	$ 4,524	$ 5,435	$ 5,052
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2007 to 6/30/2008							
Average monthly benefit	$ 419	$ 603	$ 993	$ 1,367	$ 1,732	$ 2,594	$ 2,727
Monthly final average salary	$33,734	$38,060	$45,903	$54,123	$55,404	$65,737	$62,684
Number of retired members	275	750	701	983	937	1,256	1,383

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF EMPLOYER CONTRIBUTION RATES BY PLAN

	State					Participating Governmental Units			
Fiscal Year	Teachers' Combined Rate	Employees' Combined Rate	Judges' Retirement	State Police Retirement	Enforcement Officers' Pension	Local Fire and Police	Law Enforcement Officers' Pension	Employees' Retirement	Employees' Pension
1999	13.99%	7.13%	52.12%	10.91%	25.60%	16.42%	N/A	10.91%	5.91%
2000	12.54	7.15	48.18	1.26	22.96	14.99	N/A	8.70	3.70
2001	10.95	5.71	46.75	8.44	23.38	15.00	N/A	7.81	2.81
2002	9.35	4.73	42.66	5.83	32.41	14.85	31.83%	6.75	1.75
2003	9.35	4.73	43.92	5.78	36.10	14.78	29.59	6.95	1.95
2004	8.06	4.73	43.74	7.58	35.13	14.31	30.21	7.59	2.59
2005	9.35	4.73	36.72	–	37.73	20.44	32.10	9.87	4.87
2006	9.35	5.76	41.12	8.22	38.47	20.44	32.67	9.80	4.80
2007	9.71	6.83	42.43	13.83	40.60	19.40	33.18	10.68	5.68
2008	11.60	8.86	44.12	15.44	41.74	21.58	36.80	10.27	5.27

SCHEDULE OF RETIRED MEMBERS BY TYPE
as of June 30, 2008

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	2	3	4	5	6	7
1 - $300	14,507	11,083	1,290	1,030	27	26	714	338
301 - 600	14,692	8,903	2,437	1,075	92	68	1,685	433
601 - 900	12,826	7,485	1,987	992	94	113	1,890	266
901 - 1,200	11,194	6,893	1,576	754	110	234	1,442	184
1,201 - 1,500	10,204	6,457	1,332	666	89	378	1,176	107
1,501 - 1,800	8,506	5,530	1,230	419	75	421	773	59
1,801 - 2,100	7,927	5,366	1,114	337	79	379	605	47
2,101 - 2,400	6,892	4,858	886	268	74	359	429	18
2,401 - 2,700	5,983	4,426	729	178	84	270	283	13
2,701 - 3,000	5,273	4,243	461	161	40	169	189	10
Over 3000	14,417	12,243	665	410	89	770	219	19
	112,422	77,487	13,707	6,289	852	3,187	9,406	1,492

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

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
Max.	**Opt. 1**	**Opt. 2**	**Opt. 3**	**Opt. 4**	**Opt. 5**	**Opt. 6**	**Opt. 7**
6,416	3,286	1,845	1,096	991	447	412	13
5,486	2,984	1,832	1,724	1,481	396	777	13
4,535	2,175	1,551	1,668	1,789	328	768	12
3,620	1,729	1,588	1,547	1,630	357	718	5
2,977	1,588	1,682	1,486	1,424	84	654	9
2,462	1,282	1,427	1,196	1,244	343	548	4
2,315	1,185	1,308	1,111	1,191	277	536	4
2,226	883	1,078	949	1,148	175	425	7
1,969	739	1,009	788	953	199	319	6
1,621	620	806	793	912	165	350	5
5,716	1,418	1,716	2,102	2,458	245	729	33
39,344	17,889	15,844	14,460	15,221	3,316	6,235	112

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.

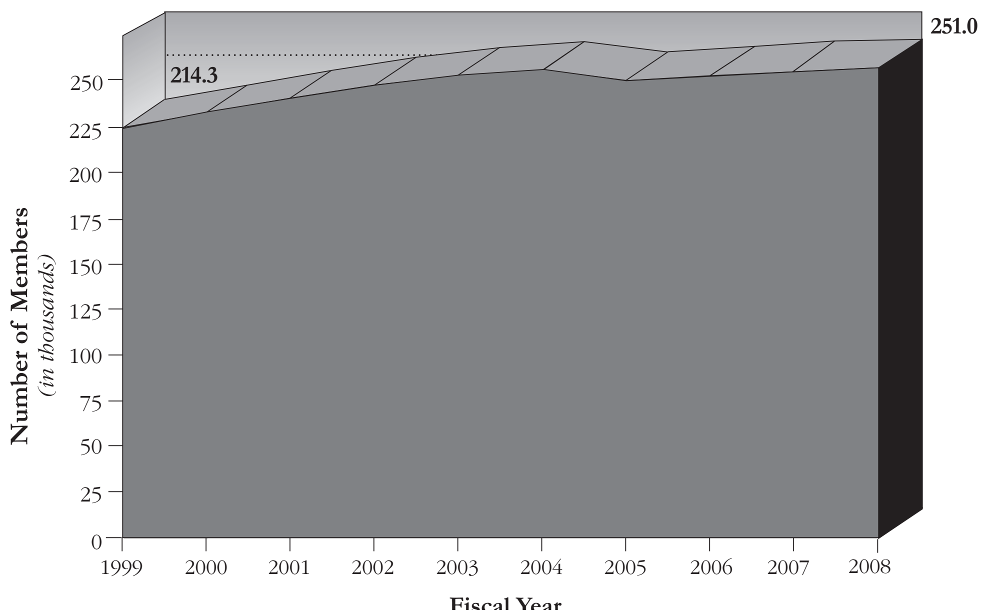
Opt. 7 – Special option calculation performed by actuary.

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

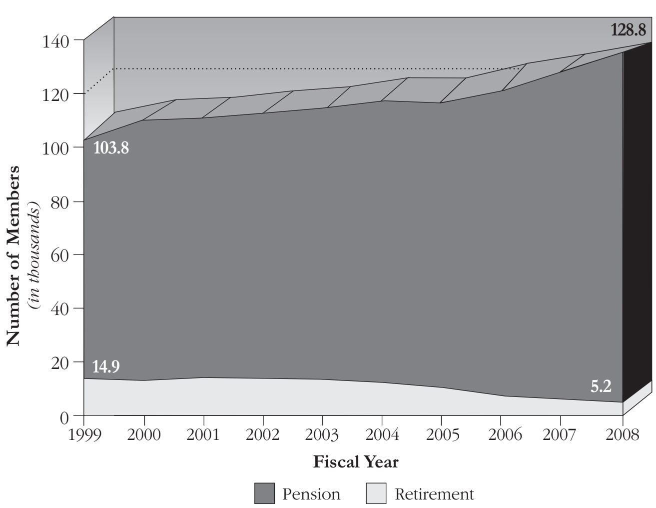
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
1999	214,339	14,949	88,882	14,034	93,414	296	1,676	892	196
2000	222,100	13,491	94,154	13,614	97,517	296	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
2006	240,583	6,678	114,693	11,398	103,784	310	1,499	2,178	62
2007	248,289	5,963	120,333	11,240	106,566	310	1,470	2,344	63
2008	251,050	5,217	123,562	10,906	107,021	294	6,487	2,501	62

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

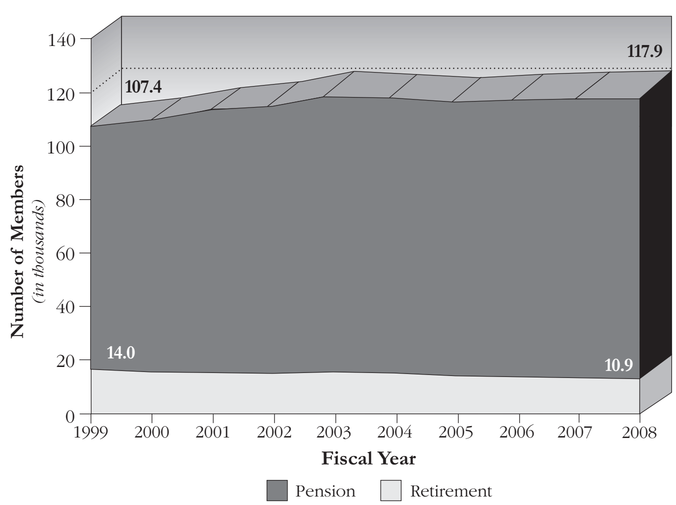
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

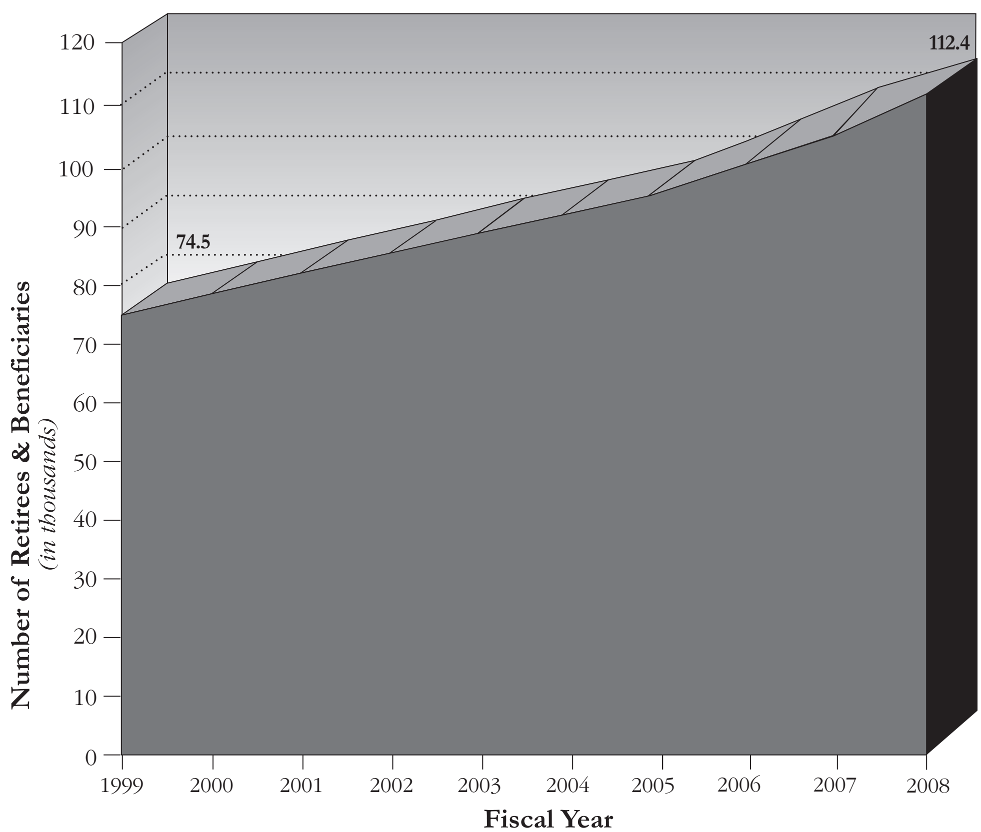


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
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
2006	103.831	31,138	19,144	24,271	26,216	330	1,937	782	16
2007	108,355	31,023	21,016	24,408	28,631	335	2,063	863	16
2008	112,422	30,955	23,030	24,197	30,723	342	2,149	958	18

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

TOTAL SYSTEM RETIREES AND BENEFICIARIES



TEN-YEAR HISTORY OF REVENUES BY SOURCE AND EXPENSES BY TYPE
(Expressed in Thousands)

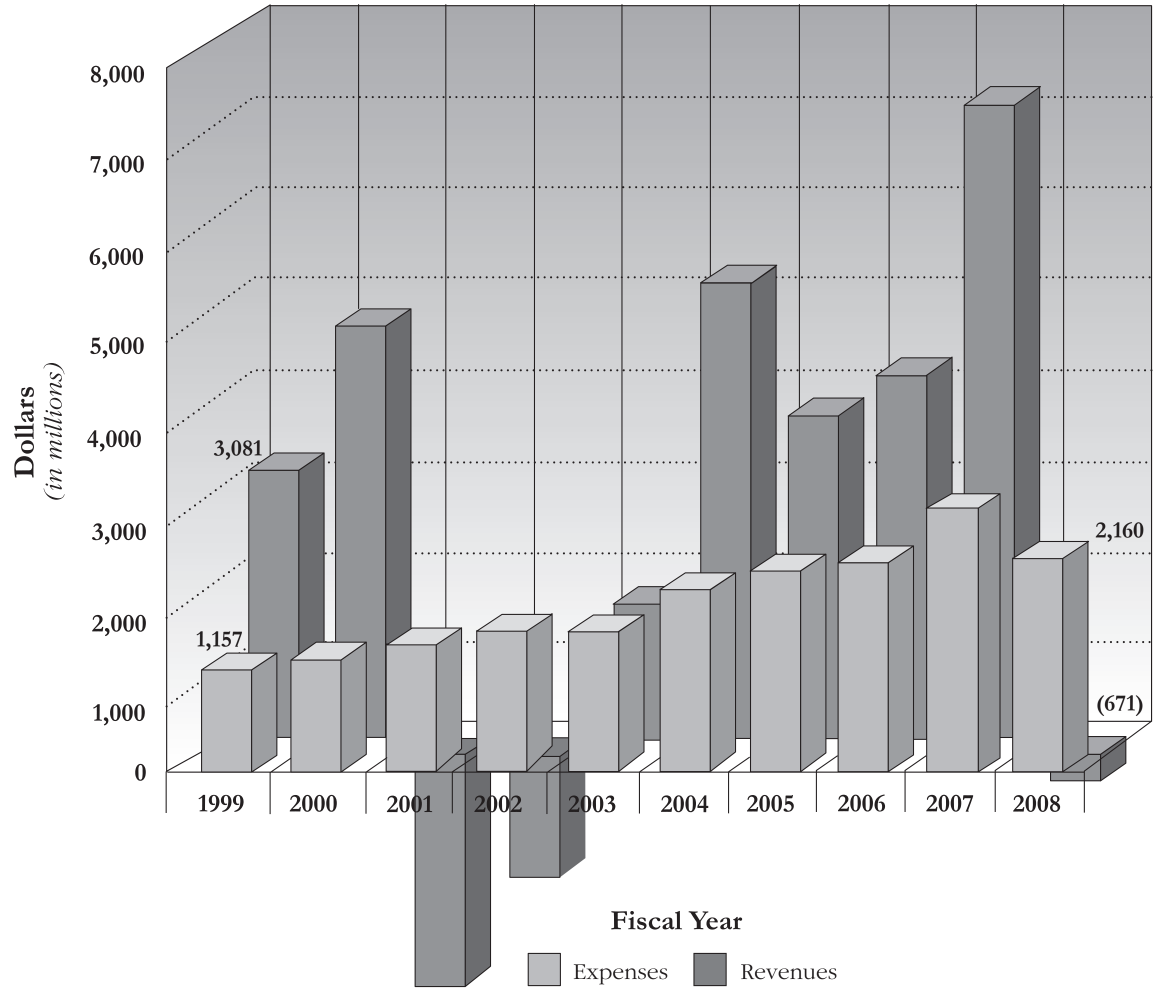
REVENUES

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
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
2006	215,077	720,876	9,089,951	7.93	3,225,649	4,161,602
2007	319,274	833,782	9,971,012	8.36	5,924,070	7,077,126
2008	420,461	1,047,962	10,542,806	9.94	(2,139,661)	(671,238)

EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
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
2006	1,829,468	18,579	16,455	1,864,502
2007	1,965,872	21,271	16,021	2,003,164
2008	2,120,463	23,147	16,223	2,159,833

TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2008			1999		
	Covered Employees	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Participating Government						
State of Maryland	317,764	1	87%	256,545	1	88%
All other (Participating Municipalities)	45,708	2	13%	35,272	2	12%
Total System	363,472			291,817		

Governmental Units Participating in the Systems

as of June 30, 2008

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
Bladensburg, Town of
Bowie, City 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
Emmitsburg, Town of
Federalsburg, Town of
Frederick County Board of Education
Frostburg, Town of
Fruitland, City of
Garrett County Board of Education
Garrett County Community Action Committee
Garrett County Office for Children, Youth and Family
Greenbelt, City of
Greensboro, Town of
Hagerstown, City of
Hagerstown Junior College
Hampstead, Town of
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
Landover Hills, Town of
LaPlata, Town of
Manchester, Town of
Maryland Health & Higher Education Facilities Authority
Maryland Transit Administration
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
Ridgely, Town of
Rockhall, Town of
St. Mary's County Board of Education
St. Mary's County Commission
St. Mary's County, Housing Authority
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
WOR-WIC Community College

Withdrawn Governmental Units

Allegany County Government
Anne Arundel County Government
Baltimore Metropolitan Council
Bethesda Fire Department
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
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
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

SRPS Plan Summary

TEACHERS' RETIREMENT SYSTEM

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	4,125	4,788
Active Non-vested	–	–
Vested Former Members	1,092	1,175
Retired Members	30,955	31,023
Active Members		
Number	4,125	4,788
Average Age	58.9	58.1
Average Years of Service	33.2	32.9
Average Annual Salary	$ 85,565	$ 80,121
Retirees & Beneficiaries		
Number	30,955	31,023
Average Age	73.9	73.1
Average Monthly Benefit	$ 2,473	$ 2,372

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 elected to transfer to the TPS prior to January1, 2005.

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 **in accordance with the provisions of the Teachers' Pension System**. 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 (**1.818**%) of the highest three years' average final **compensation** (AFC) 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 30% on the first part and 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 (1.818%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than 1.818% of AFC 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 AFC. Allowances may not exceed the members' AFC.

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).

Special Death Benefit - Provides a special death benefit to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 2/3 of the deceased member's average final compensation.

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 AFC at the point of separation.

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 at the required TPS employee contribution rate 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 at the required TPS employee contribution rate of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts.

Part 1: 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: 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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS Regulation).

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

Effective July 1, 2008, the employee contribution for selection C, Part 2 increases to 5%.

Teachers' Pension System

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	65,658	65,362
Active Non-vested	36,178	33,427
Vested Former Members	21,726	21,544
Retired Members	23,080	21,016
Active Members		
Number	101,836	98,789
Average Age	43.9	43.4
Average Years of Service	10.9	10.8
Average Annual Salary	$ 56,607	$ 53,914
Retirees & Beneficiaries		
Number	23,080	21,016
Average Age	66.9	66.4
Average Monthly Benefit	$ 1,386	$ 1,310

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 is a condition of employment for all State and local teachers and certain board of education, public library and community college employees (unless those who are eligible elect to participate in an optional retirement program). As of July 1, 2006, all TPS members, except for those who transfer from the TRS after April 1, 1998, are members of the Teachers' Pension System - Alternate Contributory Pension Selection (ACPS).

Member Contributions

All ACPS members are required to contribute 4% of earnable compensation during FY2007. As of July 1, 2008 the member contribution becomes 5%.

Service Pension Allowances

Eligibility — ACPS 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 — ACPS service pension allowances equals 1.2% of AFC for service accrued prior to July 1, 1998, plus 1.8% of AFC for service accrued on and after July 1, 1998.

Early Service Pension Allowances

Eligibility — ACPS 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 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 — ACPS 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 — 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 — ACPS 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 — 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 AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, ACPS 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 ACPS 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.

Special Death Benefit - Provides a special death benefit to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 2/3 of the deceased member's average final compensation.

Vested Pension Allowances

Eligibility — ACPS 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. 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 — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation.

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 ACPS members are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and, are compounded annually. The System limits 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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

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

Effective July 1, 2008, the employee contribution rate increases to 5%.

Employees' Retirement System

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	9,740	9,978
Active Non-vested	–	2
Vested Former Members	1,166	1,260
Retired Members	24,197	24,408
Active Members		
Number	9,740	9,980
Average Age	44.1	44.4
Average Years of Service	14.2	15.5
Average Annual Salary	$ 48,542	$ 47,347
Retirees & Beneficiaries		
Number	24,197	24,408
Average Age	73.4	73.4
Average Monthly Benefit	$ 1,451	$ 1,385

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, prior to January 1, 2005..

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' Pension System contribute in accordance with the provisions of the Employees' Pension System elected by the employer. This option is referred to as Selection C (Combination Formula).

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 (1.818%) of the highest three years' AFC 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 30% on the first part and 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 (**1.818%**%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than **1.818%** of AFC 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 AFC. Allowances may not exceed the members' AFC.

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).

Special Death Benefit - Provides a special death benefit to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 2/3 of the deceased member's average final compensation.

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 AFC at the point of separation.

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 at the required EPS employee contribution rate of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts:

Part 1: 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: Generally, the COLAs are limited to 3%; however, if the employers participate in the Non-Contributory Pension System, 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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

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 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, as well as dietary, maintenance and supply correctional officers, 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

Effective July 1, 2008, the employee contribution rate for Selection C, Part 2 increases to 5%.

Employees' Pension System

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	49,507	56,166
Active Non-vested	29,955	22,553
Vested Former Members	27,559	27,847
Retired Members	30,723	28,631
Active Members		
Number	79,462	78,719
Average Age	47.4	47.3
Average Years of Service	12.1	12.1
Average Annual Salary	$ 46,465	$ 45,017
Retirees & Beneficiaries		
Number	30,723	28,631
Average Age	67.1	66.8
Average Monthly Benefit	$ 849	$ 794

The Employees' Pension System (EPS)

The Employees' Pension System (EPS) is administered in accordance with the State Personnel and Pension Article of the Annotated Code. The EPS consists of three parts:

Non-Contributory Pension System (NCPS)

The NCPS was established on January 1, 1980 and consists only of those participating employers that did not elect membership in the Employees' Contributory Pension System (ECPS) or the Alternate Contributory Pension Selection (ACPS).

Employees' Contributory Pension System (ECPS)

The ECPS was established as of July 1, 1998 and consists of those participating employers that elected participation in the ECPS effective July 1, 1998 through July 1, 2005 and did not elect membership in the ACPS as of July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ECPS.

Alternate Contributory Pension Selection (ACPS)

The ACPS was established as of July 1, 2006 and consists of all eligible State employees and those participating employers that elected participation in the ACPS effective July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ACPS.

Member Contributions

NCPS — Members were required to contribute 5% of earnable compensation in excess of the social security wage base.
ECPS — Members are required to contribute 2% of earnable compensation.
ACPS — Members were required to contribute 4% of earnable compensation during FY2008, and 5% as of July 1, 2008 and thereafter.

Service Pension Allowances

Eligibility — **All EPS** 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

NCPS - Full service pension allowances equal .8% of the highest three consecutive years AFC up to the SSIL, plus 1.5% of the AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For purposes 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.

ECPS - Full service pension allowance equals 1.2% of AFC for service accrued prior to July 1, 1998 plus 1.4% of the AFC for service accrued on or after July 1, 1998.

ACPS - Full service pension allowance equals 1.2% of AFC for service accrued prior to July 1, 1998 plus 1.8% of the AFC for service accrued on or after July 1, 1998.

Early Service Pension Allowances

Eligibility — **All EPS** 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 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 — **All EPS** 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 — 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 — All EPS 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 — 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 AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, EPS 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 all EPS 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.

Special Death Benefit - Provides a special death benefit to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 2/3 of the deceased member's average final compensation.

Vested Pension Allowances

Eligibility — All EPS 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. 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 — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC 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 EPS 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 all EPS members are adjusted each year based on the Consumer Price Index. The Cost of Living Adjustments (COLA) are effective July 1st of each year.

NCPS - Limits the increase the retiree may receive to a maximum of 3% of the initial allowance annually.

ECPS - Limits the increase the retiree may receive to a maximum of 3%, compounded annually

ACPS - Limits the increase the retiree may receive to a maximum of 3%, compounded 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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

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

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

Judges' Retirement System

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	286	297
Active Non-vested	–	–
Vested Former Members	8	13
Retired Members	342	335
Active Members		
Number	286	297
Average Age	57.2	56.7
Average Years of Service	10.9	9.4
Average Annual Salary	$ 132,669	$ 126,729
Retirees & Beneficiaries		
Number	342	335
Average Age	77.3	76.6
Average Monthly Benefit	$ 5,637	$ 5,290

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 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 **salary** 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 six 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.

Once retired, neither the option nor designated beneficiary(ies) may be changed. Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

STATE POLICE RETIREMENT SYSTEM

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	989	1,071
Active Non-vested	437	345
Vested Former Members	61	54
Retired Members	2,149	2,063
Active Members		
Number	1,426	1,416
Average Age	35.3	35.4
Average Years of Service	10.5	11.5
Average Annual Salary	$ 60,634	$ 58,751
Retirees & Beneficiaries		
Number	2,149	2,063
Average Age	59.6	59.0
Average Monthly Benefit	$ 3,398	$ 3,295

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

Member Contributions

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

Service Retirement Allowances

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

Allowances — Full service retirement allowances equal 2.55% of AFC up to a maximum 71.4% of AFC (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 AFC 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 AFC.

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 AFC. Allowances may not exceed the members' AFC.

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 AFC.

Survivor Benefit

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

Benefits — The survivor benefit provided upon the death of an SPRS retiree equals 80% 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 80% of the retirees' allowance until the youngest child reaches age 18.

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 AFC 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 an 80% 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 six 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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

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

Deferred Retirement Option Program

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

LAW ENFORCEMENT OFFICERS' PENSION SYSTEM

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	1,577	1,643
Active Non-vested	750	574
Vested Former Members	174	127
Retired Members	958	863
Active Members		
Number	2,327	2,217
Average Age	35.3	39.9
Average Years of Service	10.5	11.2
Average Annual Salary	$ 57,347	$ 55,036
Retirees & Beneficiaries		
Number	958	863
Average Age	57.2	57.0
Average Monthly Benefit	$ 2,458	$ 2,400

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; the State Department of Elections; Field Enforcement Bureau; Firefighters for Martin's Airport Aviators employed by the Department of State Police. In addition, membership includes law enforcement officers, firefighters, and paramedics employed by a governmental unit that elects to participate in LEOPS.

The LEOPS consists of two separate components — a retirement plan (closed to new members January 1, 2005) 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%. 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%. 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 2.3% of AFC for the first 30 years of creditable service, plus 1.0% of AFC for each additional year.

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

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

Early Retirement Allowances

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

Ordinary Disability Retirement Allowances

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

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

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 AFC. Allowances may not exceed the members' AFC.

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, if any, will continue to receive the special death benefit until the youngest child reaches age 18. The special death benefit for officers killed in the line of duty is 2/3 (66.7%) of AFC.

Survivor Benefits

Eligibility — To be eligible for survivor benefits, LEOPS retiree must have retired on either a service retirement allowance or a disability allowance.

Benefits — The survivor 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 AFC 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 six 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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

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.

LOCAL FIRE AND POLICE SYSTEM

A COMPOSITE PICTURE

	2008	2007
Total Membership		
Active Vested	53	44
Active Non-vested	–	12
Vested Former Members	9	7
Retired Members	18	16
Active Members		
Number	53	56
Average Age	39.6	38.6
Average Years of Service	12.7	12.1
Average Annual Salary	$ 44,340	$ 38,954
Retirees & Beneficiaries		
Number	18	16
Average Age	58.4	59.4
Average Monthly Benefit	$ 1,536	$ 1,491

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. As of July 1, 2008, there are no participating employers in the LFPS.

Member Contributions

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 AFC for the first 30 years of creditable service, plus 1/100 (1.0%) of AFC for each additional year.

For members subject to pension plan provisions, full service pension allowances equal 1.0% of AFC up to the SSIL, plus 1.5% of AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. LFPS pension plan members whose employers do not contribute to social security receive 1.5% of their entire AFC as a 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 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 AFC. Allowances may not exceed the members' AFC.

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 AFC at the date of separation.

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.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than10 years younger than the retiree (IRS regulation).

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.

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