MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

Comprehensive Annual Financial Report

Maryland State Retirement and Pension System
A Pension Trust Fund of the State of Maryland
For the Year Ended June 30, 2011

2011

MISSION STATEMENT

The Board of Trustees of the Maryland State Retirement and Pension System (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 though 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 Sate 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 members contributions necessary to fund the System.

Comprehensive Annual Financial Report

Maryland State Retirement and Pension System

A Pension Trust Fund of the State of Maryland

For the Year Ended June 30, 2011

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

Introductory Section:

Financial Section:

Investment Section:

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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 15, 2011

Dear Members, Retirees and Beneficiaries:

On behalf of the Board of Trustees, we are pleased to present the Comprehensive Annual Financial Report of the Maryland State Retirement and Pension System for the fiscal year ended June 30, 2011. This report provides information on the financial status of the retirement system and highlights important milestones that occurred during a period when the system issued monthly, on average, about $217 million in payments to more than 127,000 retirees and beneficiaries.

The fiscal year ended with the system's portfolio earning 20.04% on investments, raising assets to $37.59 billion—an increase of $5.75 billion over the previous year when the system's portfolio earned 14.03%. For the second year in a row, the system's growth exceeded the 7.75 percent actuarial earnings assumption for the fiscal year—a welcome turnaround following the losses in 2009 that were brought about by the credit crisis and the Great Recession.

The most significant development during the fiscal year was Governor Martin O'Malley's introduction and the legislature's passage of comprehensive pension reform of the system to ensure the long-term sustainability and affordability of the State's defined benefit pension plans. Many of the adopted reforms drew from the work and recommendations of the Public Employees' and Retirees' Benefit Sustainability Commission, which was created during the 2010 General Assembly session.

While the reforms enacted have no effect on members retired as of June 30, 2011, there were changes that affect all active members, most notably for those hired after that date. For anyone employed prior to July 1, 2011, future benefits remain unchanged, however employee contributions for members of the Employees' and Teachers' Pension Systems were increased from 5% of earnable compensation to 7%. Members of the Law Enforcement Officers' Pension System were increased from 4% to 6% in fiscal 2012 and will increase to 7% in fiscal 2013. Contribution rates for the other plans remain unchanged.

For new employees hired after June 30, 2011, they too will contribute 7% of their earnable compensation to the system, but their future benefits will be less than their colleagues who were already in the system. Vesting for these new employees has also been increased from five to 10 years and the calculation of average final compensation used to calculate retirement allowances will be based on five years, rather than three. For more detail on the reforms enacted, we encourage you to check out the State Retirement Agency's website at www.sra.state.md.us.

As a result of these reforms, the General Assembly's actuary projects that the system will reach approximately 80% funding by fiscal year 2023—three years faster than pre-reform projections—and full funding in fiscal year 2031.

The Board's fundamental purpose is to ensure that the system is well funded, effectively administered, and provides your promised benefits in an accurate and timely manner. Your retirement system remains administratively and financially sound. As a participant in the system, you can remain confident that your pension benefits are secure. As always, your commitment to and involvement in the concerns of the system are greatly appreciated and we value your input. If you have any question, please do not hesitate to contact us.

Sincerely,

Nancy K. Kopp

NANCY K. KOPP
Chairman

Peter Franchot

PETER FRANCHOT
Vice Chairman

MARYLAND
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and PENSION SYSTEM

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120 East Baltimore Street
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LETTER OF TRANSMITTAL

December 15, 2011

Honorable Chairman & Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report for the Maryland State Retirement and Pension System (the "System") for the fiscal year ended June 30, 2011. 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, law enforcement officers, and correctional personnel whose employers have elected to participate in the System.

The System currently provides monthly allowances to more than 127,000 retirees and beneficiaries, and is an essential element of the future financial security for over 195,000 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 106.

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

The System's investment portfolio returned 20.04 percent in fiscal year 2011, well above the System's actuarially determined target investment return of 7.75 percent, net of expenses. The market value of assets increased by approximately $6.0 billion, from $31.8 billion on June 30, 2010 to $37.5 billion on June 30, 2011. All of the System's major asset classes produced positive returns for the year and nearly all performed above their assigned benchmarks.

The System's target asset allocation as of the end of fiscal year 2011 was 36% public equities, 15% fixed income, 10% private equities, 10% credit/debt strategies, 10% real estate, 10% real return, 7% absolute return and 2% cash. The System's investment outlook is long term, allowing the portfolio to take advantage of equity-linked asset classes. The portfolio is globally diversified and structured in a risk controlled manner.

MAJOR ISSUES AND INITIATIVES

With a focus on the long-term sustainability and affordability of the state's defined benefit plans, Governor Martin O'Malley introduced and the legislature passed comprehensive pension reform during the 2011 General Assembly session. The reforms enacted have no effect on members retired as of June 30, 2011, but there are changes that affect all active members, most notably for those hired after that date.

Benefits earned by current active members prior to July 1, 2011 also remain unchanged. However, for all active members of the Employees' and Teachers' Pension Systems, their employee contributions were increased from

5% of earnable compensation to 7%. Members of the Law Enforcement Officers' Pension System were increased from 4% to 6% in fiscal 2012 and will increase to 7% in fiscal 2013. Contribution rates for the other plans remain unchanged.

While new employees hired after June 30, 2011, will also contribute 7% of their earnable compensation to the system, their future benefits have been reduced under the reforms. Vesting for these new employees has also been increased from five to 10 years and the calculation of average final compensation used to calculate retirement allowances will be based on five years, rather than three.

Changes to the annual Cost of Living Adjustment (COLA) provisions were also made under pension reform. For service earned on and after July 1, 2011, the COLA remains linked to the Consumer Price Index, but the cap is reduced from 3% to 2.5% and is awarded if the assumed rate of return for investments is achieved in the prior year. If the target—currently 7.75%—is not reached, then the COLA is limited to 1%. None of these COLA changes apply to those retired as of June 30, 2011.

As a result of these reforms, the General Assembly's actuary projects that the system will reach approximately 80% funding by fiscal year 2023 and 100% funding in fiscal year 2031. More information about the enacted reforms can be found on the Maryland State Retirement Agency's website at www.sra.state.md.us.

While it has certainly been affected by the economic events and market volatility of the last couple of years, the System remains financially sound and committed to its long term funding goals. However, the Board of Trustees continues to be deeply concerned with the statutorily required Corridor Funding Methodology used to calculate annual employer contributions to the trust fund for the two largest systems: State Employees' and Teachers'.

Under the Corridor Funding Method, contribution rates are fixed from year to year as long as the funded status for each of these systems remains in a "corridor" of 90% to 110%. When it was adopted in 2002, both systems were within the Corridor, but within three years, the employees' plan dropped out of the Corridor and the teachers' plan followed in 2006. Since its enactment, the Corridor Funding Method has generated annual savings of between $100 million and $200 million in the State's employer contributions, but it also contributed to the declining funded ratio for Maryland State Retirement and Pension System because it creates deliberate short-term underfunding of the system's liabilities.

The Board remains committed to its recommendation to cease this Corridor Funding Method, and thereby eliminate the impact this methodology is having on the System's funded status.

With the leadership and oversight of the System's Chief Investment Officer, implementation of the long-term asset allocation adopted by the Board of Trustees continues to proceed successfully. Consequently, System investments in alternative assets have steadily increased. Further information regarding the System's investment program can be found in the Chief Investment Officer's letter located in the Investment Section of this report.

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 and measurable. 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 2011, investment earnings were $6.27 billion, while revenues from employer and member contributions were $1.5 billion and $528 million, respectively. For fiscal year 2011, member contribution rates on average were 5%, 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 2011 totaling $2.6 billion. In addition, the System disbursed $260.6 million to manage the investment portfolio and to administer the System, of which $229.6 million was paid for investment management, portfolio custody, and securities lending services and $31million 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 presented 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 five to the basic financial statements.

The actuarial accrued liability of the Systems is also 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, 2011, the System's actuarial accrued liability was $55.9 billion and the unfunded actuarial accrued liability totaled $19.7 billion, resulting in a funded status ratio of 64.7%. The portion of the unfunded actuarial accrued liability that existed at June 30, 2000 will continue to be amortized over the remaining 9-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 Gabriel Roeder Smith & Company and independent financial statement audit services were provided by SB & Company, LLC. 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. Hewitt Ennis Knupp, Inc. 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 Maryland State Retirement and Pension System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the twenty-second consecutive year (1989 through 2010) that it has received 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 State Retirement and Pension System received the Public Pension Coordinating Council's (PPCC) 2011 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 Maryland State Retirement and Pension System is proud to be a recipient of this 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 with diligence and dedication throughout fiscal year 2011.

R. Dean Kenderdine	Melody Countess, CPA
Executive Director	*Chief Operating Officer*
Secretary to the Board	

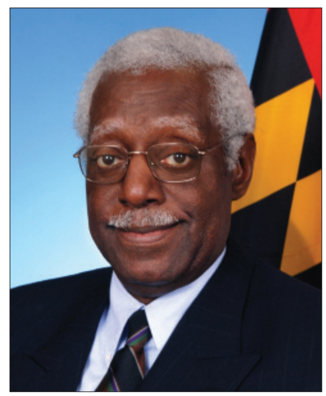
BOARD OF TRUSTEES

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

PETER FRANCHOT, *Vice Chairman*
State Comptroller
Ex Officio since January 22, 2007
Member, Investment Committee
Member, Corporate Governance Committee

DAVID S. BLITZSTEIN
April 1, 2008 – July 31, 2012
Member, Investment Committee
Member, Corporate Governance Committee

WILLIAM D. BROWN
August 1, 1997 – July 31, 2013
Vice Chair, Investment Committee
Member, Corporate Governance Committee



JOHN W. DOUGLASS
May 18, 2004 – July 31, 2015
Member, Administrative Committee
Vice Chairman, Audit Committee

ELOISE FOSTER
Ex Officio since January 17, 2007
Member, Administrative Committee
Member, Investment Committee

JAMES M. HARKINS
October 1, 2004 - June 30, 2014
Chairman, Administative Committee
Member, Audit Committee

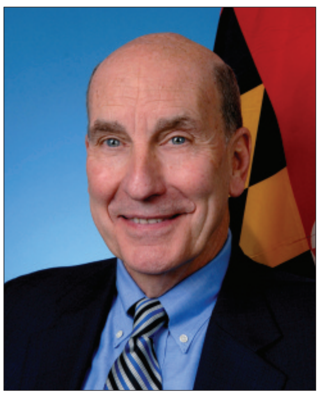
SHEILA HILL
October 19, 2004 – July 31, 2013
Member, Administrative Committee
Member, Investment Committee
Chairman, Corporate Governance Committee

BOARD OF TRUSTEES

F. Patrick Hughes
April 20, 2004 - June 30, 2013
Chairman, Audit Committee
Member, Investment Committee

Major Morris L. Krome
August 1, 1998 – July 31, 2014
Vice Chairman, Administrative Committee
Member, Audit Committee
Member, Investment Committee

Theresa Lochte
August 1, 2007 – July 31, 2015
Member, Administrative Committee
Member, Audit Committee

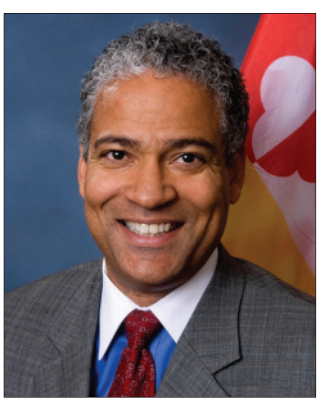


Robert W. Schaefer
August 1, 2007 – July 31, 2011
Chairman, Investment Committee

Harold Zirkin
September 10, 2007 - June 30, 2015
Member, Investment Committee
Member, Audit Committee

Thurman Zollicoffer, Jr.
September 12, 2007 - July 31, 2015
Member, Investment Committee
Vice Chairman, Corporate Governance Committee

ADVISORS TO THE INVESTMENT COMMITTEE



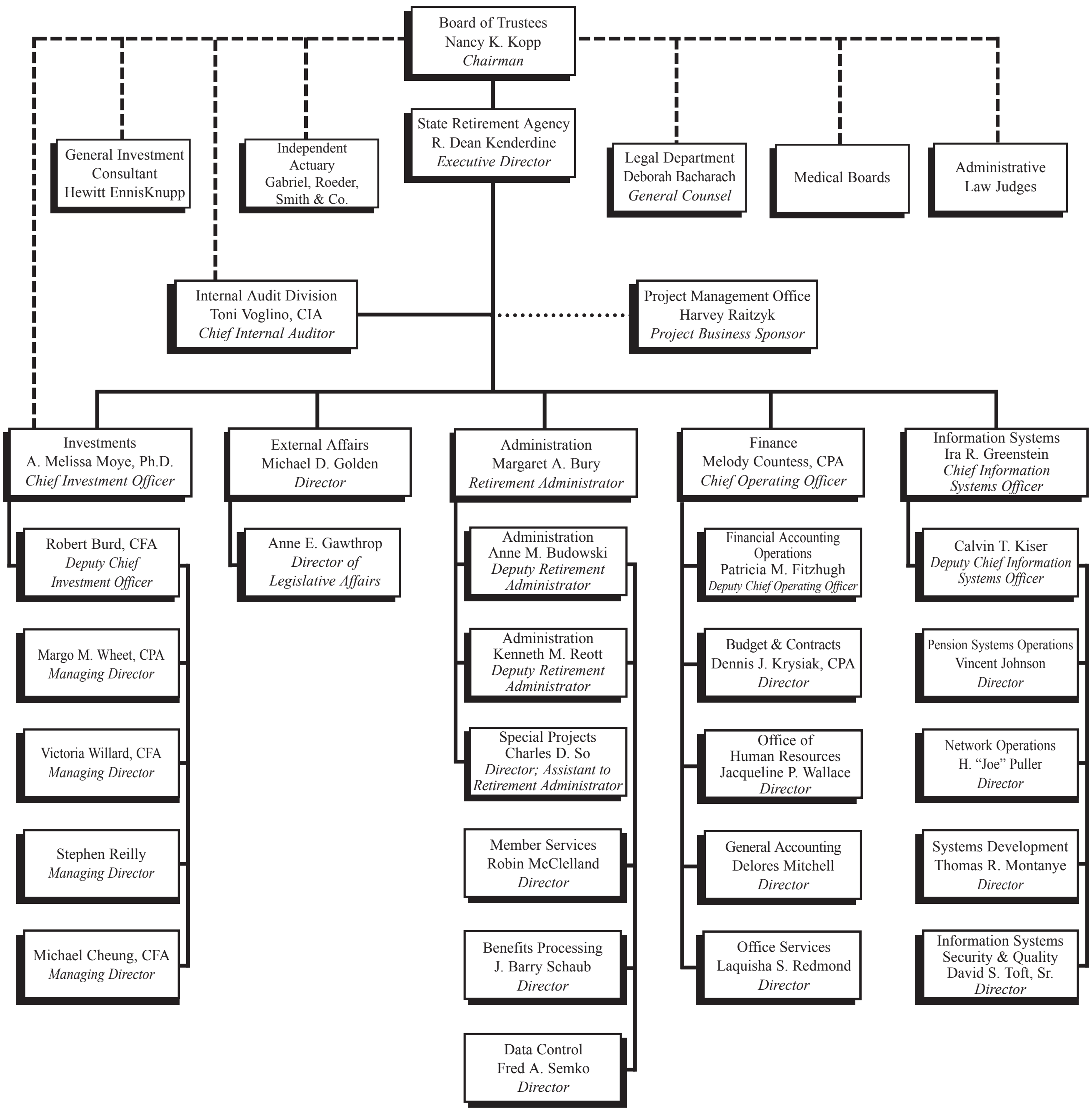
Larry E. Jennings, Jr.

Wayne H. Shaner

Brian B. Topping

ORGANIZATIONAL CHART

(November, 2011)



*Additional information regarding investment professionals who provide services to the System can be found on pages 11, 56-59, and 68.

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

Gabriel Roeder Smith & Company
Southfield, Michigan

Independent Auditor

SB & Company, LLC
Hunt Valley, Maryland

Independent Investment Consultants

Altius Associates Limited
Richmond, Virginia

Hewitt EnnisKnupp, Inc.
Chicago, Illinois

Pension Consulting Alliance
Encino, California

Medical Board

Paul T. Barbera, M.D.
Errol L. Bennett, M.D.
Robert G. Cumming, M.D.
Norman Freeman, Jr. M.D.
Vinu Ganti, M.D.
Arthur Hildreth, M.D.
Bruce Z. Kohrn, M.D.
William B. Russell, M.D.
John Parkerson, M.D.
Alfred Wiedmann, M.D.

Operational Banking Services

M & T Bank
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maryland State Retirement and Pension System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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.

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

Public Pension Coordinating Council

Recognition Award for Administration 2011

Presented to

Maryland State Retirement and Pension System

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

SB & COMPANY, LLC
Experience • Quality • Client Service
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Maryland State Retirement and Pension System

We have audited the accompanying basic financial statements of the Maryland State Retirement and Pension System (the System), which is a pension trust fund of the State of Maryland, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Maryland State Retirement and Pension System as of June 30, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Contributions from Employers and Other Contribution Entity as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing principles applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

SB's Company, LLC

Hunt Valley Maryland
November, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

To help facilitate a better understanding of the Maryland State Retirement and Pension System's (the "System") financial condition as of June 30, 2011, 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 Required 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 Required 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 Required 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 primary 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 2011 compared to 2010

The following Condensed Comparative Statement of Net Assets for the fiscal years ended June 30, 2011 and 2010 presents an increase in System net assets of $5.7 billion (17.8%). This increase is primarily attributable to strong performance in stocks, real estate and alternative investments for most of the fiscal year 2011. Positive performance, on a more modest scale, was experienced in fixed income and cash & cash equivalents. Additional information on our fiscal year 2011 investment activities can be found in the Investment Section of this report.

A schedule of the System's investments and changes (by type) from fiscal year 2010 to 2011 is as follows (expressed in millions):

	June 30,		Change	
	2011	**2010**	**Amount**	**%**
Cash & cash equivalents	$ 2,002.7	$ 1,630.3	$ 372.4	22.8%
U.S. Government obligations	3,298.8	3,183.2	115.6	3.6%
Domestic corporate obligations	3,133.1	3,159.8	(26.7)	-0.8%
International obligations	1,078.0	919.5	158.4	17.2%
Domestic stocks	8,409.0	7,760.2	648.8	8.4%
International stocks	9,226.1	8,234.9	991.2	12.0%
Mortgages & mortgage related securities	2,583.0	1,670.3	912.7	54.6%
Real estate	166.4	396.1	(229.7)	-58.0%
Alternative investments	8,379.9	5,047.1	3,332.8	66.0%
Total managed investments	38,277.0	32,001.4	6,275.6	19.6%
Collateral for loaned securities	4,245.0	4,630.2	(385.2)	-8.3%
Total investments and cash & cash equivalents	42,522.0	36,631.6	5,890.4	16.1%
Receivables	887.0	1,052.4	(164.7)	-15.6%
Total Assests	43,409.7	37,684.0	5,725.7	15.2%
Liabilities	5,816.9	5,760.3	(56.6)	-1.0%
Total Net Assets, End of Year	$37,592.8	$31,923.7	$ 5,669.1	17.8%

As depicted in the following Comparative Statement of Changes in Net Assets for fiscal years 2011 and 2010, contributions to the plan during fiscal year 2011 increased as a result of the impact of the fiscal year 2009 investment losses that continue to be actuarially smoothed into the calculation of employer contribution rates. The strong performance of the System's investments during fiscal year 2011 produced a positive weighted average investment return of 20.04%. As a result, the System recognized $6.27 billion in net investment income. The System continues to pay out more benefits than contributions collected. An increase of $134.9 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries during FY11.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2010 to 2011is as follows (expressed in millions):

	June 30,		Change	
	2011	**2010**	**Amount**	**%**
Employer contributions	$ 612.3	$ 504.7	$ 107.6	21.3%
Member contributions	528.0	535.5	(7.5)	-1.4%
Other & contribution interest	900.2	804.2	96.0	11.9%
Net investment income(loss)	6,273.3	4,016.3	2,256.9	56.2%
Total additions	8,313.8	5,860.8	2,453.0	41.9%
Benefit payments	2,580.4	2,445.5	134.9	5.5%
Refunds	33.4	33.5	(0.1)	-0.3%
Administrative expenses	30.9	28.6	2.3	8.0%
Total deductions	2,644.7	2,507.6	137.1	5.5%
Net increase (decrease) in plan net assets	$ 5,669.1	$ 3,353.2	$ 2,315.9	69.1%

Fiscal Year 2010 compared to 2009

The System's net assets increased by $3.4 billion (11.7%) from fiscal year 2009 to the end of fiscal year 2010. This increase in net assets was primarily attributable to strong performance in stocks, fixed income and alternative investments for most of the fiscal year 2010.

A schedule of the System's investments and changes (by type) from fiscal year 2009 to 2010 follows (expressed in millions):

	June 30,		Change	
	2010	**2009**	**Amount**	**%**
Cash & cash equivalents	$1,630.3	$3,360.9	$(1,730.6)	-51.5%
U.S. Government obligations	3,183.2	1,828.8	1,354.4	74.1%
Domestic corporate obligations	3,159.8	3,656.1	(496.3)	-13.6%
International obligations	919.5	66.5	853.0	1282.9%
Domestic stocks	7,760.2	8,593.2	(833.0)	-9.7%
International stocks	8,234.9	7,912.6	322.3	4.1%
Mortgages & mortgage related securities	1,670.3	2,178.3	(508.0)	-23.3%
Real estate	396.1	338.5	57.6	17.0%
Alternative investments	5,047.1	1,655.0	3,392.1	205.0%
Total managed investments	32,001.4	29,589.9	2,411.5	8.1%
Collateral for loaned securities	4,630.2	5,017.1	(386.9)	-7.7%
Total investments and	36,631.6	34,607.0	2,024.6	5.9%
Receivables	1,052.4	589.7	462.7	78.5%
Total Assets	37,684.0	35,196.7	2,487.3	7.1%
Liabilities	5,760.3	6,626.3	(866.0)	-13.1%
Total Net Assets, End of Year	$31,923.7	$28,570.4	$3,353.3	11.7%

In the following Comparative Statement of Changes in Net Assets, the increase in System additions during fiscal year 2010 increased as a result of the impact of the fiscal year 2008 declining market performance and investment losses on employer contribution rates for fiscal year 2010. The strong performance of the System's investments during fiscal year 2010 produced a positive weighted average investment return of 14.03%. As a result, the System recognized $4 billion in net investment income. An increase of $166.4 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries during FY10. The 7.7% increase in total deductions in fiscal year 2010 was primarily attributable to increased efforts by the Agency to refund accumulated contributions to inactive non-vested members.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2009 to 2010 is as follows (expressed in millions):

	June 30,		Change	
	2010	**2009**	**Amount**	**%**
Employer contributions	$ 504.7	$ 443.5	$ 61.2	13.8%
Member contributions	535.5	532.1	3.4	0.6%
Other & contribution interest	804.2	666.0	183.2	20.8%
Net investment income	(4,016.4)	(7,355.9)	(11,372.3)	-154.6%
Total additions	(5,860.8)	(5,714.3)	(11,575.1)	202.6%
Benefit payments	2,445.5	2,279.1	166.4	7.3%
Refunds	33.5	22.3	11.2	50.2%
Administrative expenses	28.6	27.5	1.1	4.0%
Total deductions	2,507.6	2,328.9	178.7	7.7%
Net increase (decrease) in plan net assets	$(3,353.2)	$ (8,043.2)	$(11,396.4)	141.7%

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. Positive investment returns in FY11 exceeded the carryover of prior year's losses in the development of June 30, 2011 actuarial asset value. As result, the June 30th 2011 actuarial valuation presents an increase in the funded status of the System from 64.14% at June 30, 2010 to 64.70% at June 30, 2011.

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 under Required Supplementary Information. Additional information on the plan's funding progress is also presented in the Actuarial Section of this report.

REQUESTS FOR INFORMATION

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

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF PLAN NET ASSETS
As of June 30, 2011 and 2010
(Expressed in Thousands)

	2011	2010
Assets:		
Cash & cash equivalents (note3)	$ 2,002,722	$ 1,630,322
Receivables:		
Contributions:		
Employers	18,569	14,895
Employers – long term	45,311	48,518
Members	9,293	7,584
Accrued investment income	96,825	340,171
Investment sales proceeds	717,709	641,276
Total receivables	887,707	1,052,444
Investments, at fair value:		
U.S. Government obligations	3,298,771	3,183,211
Domestic corporate obligations	3,133,131	3,159,516
International obligations	1,078,016	919,603
Domestic stocks	8,409,004	7,760,239
International stocks	9,226,097	8,234,789
Mortgages & mortgage related securities	2,582,992	1,670,334
Real estate	166,376	396,092
Alternative investments	8,379,900	5,047,137
Collateral for loaned securities	4,244,956	4,630,233
Total investments	40,519,243	35,001,154
Total assets	43,409,672	37,683,930
Liabilities:		
Accounts payable & accrued expenses	60,012	51,081
Investment commitments payable	1,509,634	1,077,127
Obligation for collateral for loaned securities	4,244,956	4,630,23
Other liabilities	2,318	1,852
Total liabilities	5,816,920	5,760,293
Net assets held in trust for pension benefits	$ 37,592,752	$ 31,923,637

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS
for the Fiscal Years Ended June 30, 2011 and 2010

(Expressed in Thousands)

	2011	2010
Additions:		
Contributions:		
Employers	$ 612,277	$ 504,701
Members	528,028	535,581
Other	897,438	801,273
Contribution interest	2,757	2,947
Total contributions	2,040,500	1,844,502
Investment income:		
Net appreciation in fair value of investments	5,359,906	3,331,348
Interest	347,537	310,597
Dividends	748,794	516,723
Real estate operating net income	22,478	20,890
Income before securities lending activity	6,478,715	4,179,558
Gross income from securities lending activity	24,249	28,485
Securities lending borrower rebates	(5,374)	(6,369)
Securities lending agent fees	(3,010)	(3,526)
Net income from securities lending activity	15,865	18,590
Total investment income	6,494,580	4,198,148
Investment expenses	(221,243)	(181,789)
Net investment income	6,273,337	4,016,359
Total additions	8,313,837	5,860,861
Deductions:		
Benefit payments	2,580,392	2,445,540
Refunds	33,369	33,531
Administrative expenses	30,961	28,627
Total deductions	2,644,722	2,507,698
Net increase(decrease) in plan assets	5,669,115	3,353,163
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	31,923,637	28,570,474
End of the fiscal year	$ 37,592,752	$ 31,923,637

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 the State agencies, boards of education, community colleges and libraries. The "Municipal Pool" consists of the 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, and the Law Enforcement Officers' Pension 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 150 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 following table presents a summary of membership by system as of June 30, 2011, with comparative 2010 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	22,617	60,565	81,209	24,319	105,528
Employees' Retirement & Pension Systems*	27,978	62,575	63,158	22,381	85,539
Judges' Retirement System	11	358	286	-	286
State Police Retirement System	91	2,371	947	348	1,295
Law Enforcement Officers' Pension System	214	1,302	1,771	640	2,411
Totals as of June 30, 2011	50,911	121,171	147,371	47,688	195,059
Totals as of June 30, 2010	51,775	120,247	144,343	53,443	197,786

* Employees' Retirement and Pension System includes Correctional Officers' Retirement System.

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.

In 2011, the General Assembly enacted pension reforms which are effective July 1, 2011, and affect both current active members and new hires. The member contribution rate was increased for members of the Teachers' Pension System and Employees' Pension System from 5% to 7%, and from 4% to 6% in fiscal year 2012 and 7% in fiscal year 2013 and beyond for LEOPS. In addition, the benefit attributable to service on or after July1, 2011, will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price index and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.75%). There were also changes to the provisions for members hired on or after July 1, 2011. Given the June 30th, 2011 date of this report, the affect of the enacted pension reforms with an effective date of July 1, 2011, are not presented in this report.

A brief summary of the retirement eligibility requirements of and the benefits available under, the various systems in effect during fiscal year 2011 follows:

Service Retirement Allowances

AA 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).

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 services. 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.

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. Detailed Schedules of Administrative and Investment Expenses, can be found in other Supplementary Information following the Notes to the Financial Statements.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2011and 2010, the System qualified under Section 401(a) of the Internal Revenue Code and was exempt from federal income taxes under Section 501(a) of the Code.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Legal Provisions

The Board of Trustees is required by Section 21-116 (c), State Personnel and Pensions Article, Annotated Code of Maryland (SPP), to establish and maintain an 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:

Type	Description	As of June 30, 2011 Strategic Target	Actual
Public Equity	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.	36.0%	47.2%
Fixed Income	Fixed income obligations of the U.S. government and its 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.	10.0%	20.3%
Debt Related Strategies	LPrimarily made up of Distressed Debt, Credit LP Funds, Mezzanine Debt LP Funds, Public Private Funds, and Flexible Credit.	10.0%	5.9%
Alternate Investment:			
Absolute Return	This asset class may include an array of hedge fund Strategies, including distressed debt, arbitrage managers, Long/short market neutral managers as well as macro and multi strategy managers.	7.0%	4.4%
Private Equity	Limited Partnerships	10.0%	4.3%
Real Estate	Consists of three components: (a) Domestic and Global Real Estate Investment Trusts (REITS); (b) Directly Owned Real Estate; and (c) Private Real Estate Funds.	10.0%	5.8%
Real Return	This asset class may include: Treasury inflation protected securities, Global inflation-linked securities, commodities, Energy related, infrastructure, natural resources and multi-asset class portfolios with a real return mandate.	15.0%	10.4%
Cash Portfolio	Can Consist of Money Market Funds, U.S. Treasury Bills, Commercial Paper, Currency and other Short Term Investments.	2.0%	1.7%

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.

B. Cash and Cash Equivalents

FFor 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, that are 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 and there are no legal or contractual provisions for deposits and investments. 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 as of June 30, 2011 and June 30, 2010 was $2,002,722 and $1,630,332 (in thousands), respectively.

C. Investments

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 and Law Enforcement Officers' Pension.
All investments are governed by the prudent person rule as described in SPP Section 21-203. A fiduciary shall discharge the fiduciary's duties with respect to the several systems solely in the interest of the participants and as follows with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; by diversifying the investments of the several systems. Investment Restrictions are defined by each investment manager's mandate, which is specified in their contract.

D. Interest Rate Risk

As of June 30, 2011, the System had the following fixed income investments listed by specific identifier with the exception of the Commingled 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	$1,470,940	$ 527,388	$ 943,552	$ -	$ -
Asset backed securities	278,347	29	69,493	56,085	152,740
CMBS	13,649	-	-	-	13,649
Collateralized mortgage obligations	517,013	-	2,187	25,356	489,470
Convertible bonds	37,286	373	25,579	3,997	7,337
Domestic corporate obligations	2,133,034	121,628	759,642	898,965	352,799
International obligations	1,071,732	67,135	243,394	394,623	366,580
Mortgage pass-throughs	2,086,809	514	8,501	69,718	2,008,076
Municipals	129,062	302	8,762	15,240	104,758
Options	2,953	(2,937)	(715)	6,605	-
Short term	1,822,592	1,819,090	3,502	-	-
Swaps	(1,786)	(62)	356	(575)	(1,505)
U.S. government agency	259,391	22,289	169,020	54,259	13,823
U.S. treasury bills	5,927	5,927	-	-	-
U.S. treasury bonds	915,281	-	2,961	23,713	888,607
U.S. treasury notes	2,086,065	156,562	1,168,039	761,464	-
U.S. treasury strips	38,035	-	-	-	38,035
Yankee bonds	521,795	60,607	225,068	162,736	73,384
Totals	$13,388,125	$2,778,845	$3,629,341	$2,472,186	$4,507,753

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.

Examples of securities that would qualify as "highly interest rate sensitive" include interest only, principal only and inverse floaters, of which the System had no significant holdings as of June 30, 2011.

At June 30, 2011, the System had $2.1 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.

Investment guidelines developed for each mandate determines the amount of interest rate risk allowable for each manager.

Derivatives held as of June 30, 2011 are identified in greater detail in Note 4.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2011 and 2010 is shown below:

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

Rating	2011 Fair Value	Percentage Total Investments	2010 Fair Value	Percentage Total Investments
AAA	$ 2,980,910	7.929%	$ 2,638,441	8.265%
AA	537,473	1.430%	288,434	0.904%
A	2,765,807	7.357%	2,187,246	6.851%
BAA	147,660	0.393%	96,834	0.303%
BA	13,731	0.037%	14,595	0.046%
BBB	870,992	2.317%	596,288	1.868%
BB	237,279	0.631%	136,785	0.428%
B	166,868	0.444%	170,921	0.535%
CAA	41,596	0.111%	34,133	0.107%
CA	0	0.000%	661	0.002%
CCC	116,075	0.309%	96,844	0.303%
CC	2,875	0.008%	20,569	0.064%
C	2,061	0.005%	1,027	0.003%
D	15,353	0.041%	8,047	0.025%
NR	969,417	2.579%	253,111	0.793%
TOTAL	$ 8,868,097		$ 6,543,936	

The current policy regarding credit risk is determined by each investment manager's mandate. 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 commingled funds, alternative investments and swaps, which by nature do not have credit quality ratings.

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2011:

International Investment Securities – At Fair Value as of June 30, 2011
(U.S. Dollars in Thousands)

Currency	Equity	Income	Fixed Income	Alternate Investments	Mutual Funds	Total
Argentine Peso	$ -	$ 215	$ -	$ -	$ -	215
Australian Dollar	294,951	19,310	3,345	108,640	-	426,246
Brazilian Real	93,653	112	791	2,254	-	96,810
Canadian Dollar	393,901	32,054	3,995	34,103	-	464,053
Czech Koruna	5,263	-	22	-	-	5,285
Danish Krone	73,107	-	707	-	-	73,814
Egyptian Pound	1,324	-	-	-	-	1,324
Euro Currency	1,831,684	410,505	22,645	635,505	-	2,900,339
Hong Kong Dollar	557,535	812	4,384	123,095	-	685,826
Hungarian Forint	1,577	-	73	-	-	1,650
India Rupee	-	-	-667	-	-	-667
Indonesian Rupiah	24,994	-	140	-	-	25,134
Israeli Shekel	17,812	-	320	69,174	-	87,306
Japanese Yen	1,019,127	62,977	11,743	11,394	-	1,105,241
Malaysian Ringgit	28,641	-	477	-	-	29,118
Mexican Peso	28,888	763	794	-	-	30,445
New Russian Ruble	1,080	400	-	-	-	1,480
New Taiwan Dollar	75,218	-	2,581	-	-	77,799
New Turkish Lira	-	-	136	-	-	136
New Zealand Dollar	3,855	16,963	407	-	-	21,225
Norwegian Krone	92,325	-	3,162	-	-	95,487
Pakistan Rupee	740	-	-	-	-	740
Philippine Peso	6,121	-	56	-	-	6,177
Polish Zloty	35,024	19,602	75	-	-	54,701
Pound Sterling	1,104,033	86,553	14,394	327,564	-	1,532,544
Singapore Dollar	107,586	-	478	18,278	-	126,342
South African Rand	67,013	-	980	-	-	67,993
South Korean Won	225,105	-	1,756	-	-	226,861
Swedish Krona	172,871	695	10,224	24,844	-	208,634
Swiss Franc	464,883	-	19,571	7,455	-	491,909
Thailand Baht	29,590	-	402	-	-	29,992
Turkish Lira	32,371	-	71	-	-	32,442
Yuan Renminbi	-	156	1	1,155	-	1,312
Multiple	795	12	204,241	1,029,872	1,234,920	-
Total Holdings Subject to Foreign Current Risk	$6,790,272	$ 651,912	$ 103,075	$ 1,567,702	$ 1,029,872	10,142,833

The majority of foreign currency-denominated investments are in non-US stocks.
The Agency has an overlay program to help minimize its currency risk.

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."*

The following table details the net income from securities lending for the periods ending June 30, 2011 and 2010 (in thousands):

	2011	2010
Interest income	$ 24,249	$ 28,485
Less:		
Interest expense	5,374	6,368
Program fees	3,010	3,526
Expenses from securities lending	8,384	9,894
Net income from securities lending	$ 15,865	$ 18,591

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 long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan at June 30, 2011 were long-term U.S. government 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 percent (domestic equities and bonds) and 105 percent (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. There have been no violations of the provisions of the agreement during the period of these financial statements.

During the Fiscal Year, the System maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2011, such investment pool had an average duration of 39.08 days and an average final maturity of 124.99 days for USD collateral. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The system cannot pledge or sell collateral securities received unless and until a borrower defaults. 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, 2011 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral:			
U.S. government and agency	$1,607,208	$1,643,579	102%
Domestic fixed income	323,260	329,952	102%
Domestic equity	1,466,131	1,487,675	101%
International fixed income	65,792	66,880	102%
International equity	568,781	593,202	104%
Lent for noncash collateral:			
U.S. government and agency	104,708	106,972	102%
Domestic equity	12,504	14,124	113%
Domestic fixed	115	-	0%
International equity	3,614	2,572	71%
Total securities lent	$4,152,113	$4,244,956	102%

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.

4. DERIVATIVES

Each Investment Manager's guidelines determine the extent to which derivatives are permissible. Futures and other derivatives are permitted 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 are not permitted to materially alter the characteristics, including the investment risk, of each manager's account. The Investment Managers are to have in place, and use, procedures that subject derivative based strategies to rigorous scenario and volatility analysis. Futures and short option positions must be hedged with cash, cash equivalents or current portfolio security holdings.

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value		Fair Value at June 30,2011		
Currency	**Classifications**	**Amount(1)**	**Classification**	**Amount(2)**	**Notional(3)**
Commodity Futures Long	Investment Revenue	$ 106,777,829	Futures	$ -	$ 81,081,528
Commodity Futures Short	Investment Revenue	(45,005,654)	Futures	-	(306)
Credit Default Swaps	Investment Revenue	4,657,263	Swaps	1,040,076	239,565,000
Currency Swaps	Investment Revenue	(517,325)	Swaps	(512,849)	32,282,927
Fixed Income Futures Long	Investment Revenue	4,331,563	Futures	-	1,023,300,000
Fixed Income Futures Short	Investment Revenue	(29,003,492)	Futures	-	(734,750,000)
Fixed Income Options Bought	Investment Revenue	6,051	Options	39,058	10,600,000
Fixed Income Options Written	Investment Revenue	4,240,902	Options	(1,650,990)	(375,000,000)
Foreign Currency Options Bought	Investment Revenue	(914,511)	Options	-	-
Foreign Currency Options Written	Investment Revenue	962,231	Options	(27,780)	(2,800,000)
Futures Options Bought	Investment Revenue	(2,308,402)	Options	-	34,247,500
Futures Options Written	Investment Revenue	12,104,182	Options	-	(5,794,000)
FX Forwards	Investment Revenue	(385,376,343)	Long Term Instruments	(141,238,032)	-
Index Futures Long	Investment Revenue	31,666,265	Futures	-	826,975
Index Futures Short	Investment Revenue	-	Futures	-	-
Interest Rate Swaps	Investment Revenue	(7,738,439)	Swaps	(2,064,006)	-
Rights	Investment Revenue	2,668,287	Common Stock	370,824	2,596,581
Total Return Swaps Bond	Investment Revenue	197,696	Swaps	41,384	13,166,260
Warrants	Investment Revenue	807,936	Common Stock	6,478,755	1,321,687
		$ (302,443,960)		**$ (137,523,558)**	

Note: Includes assets invested on behalf of the Mass Transit Administration.
1. Negative values (in brackets) refer to losses
2. Negative values refer to liabilities
3. Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions
4. Excludes futures margin payments

A. Credit Risk

The System is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to losses related to credit risk, the investment managers use counterparty collateral in their non-exchange-traded derivative instruments. Netting arrangements are also used when entering into more than one derivative instrument transaction with a counterparty. At the present time, the Agency does not have a formal policy relating to counterparty collateral or netting arrangements.

The aggregate fair value of derivative instruments in asset positions at June 30, 2011, was $614,235,019. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform. The maximum loss would, however, be reduced by the counterparty collateral and the liabilities included in netting arrangements with counterparties.

Counterparty Ratings

The following tables list the market value of credit exposure per ratings of Standard & Poor's (S&P), Moody's and Fitch:

Market Value	S&P Rating	Market Value	Moody's Rating	Market Value	Fitch Rating
$ 152,059,228	AA	$41,473,358	Aaa	$ 142,331,180	AA
228,972,610	AA-	81,577,370	Aa1	321,237,117	AA-
230,870,394	A+	39,152,276	Aa2	148,525,508	A+
2,332,786	A	399,142,388	Aa3	2,141,213	A
$ 614,235,018	(1)	2,130,501	A1	$614,235,018	(1)
		50,759,125	A2		
		$614,235,018	(1)		

(1) Total aggregate fair value

Risk Concentrations

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
UBS AG London	22%	A+	A+	Aa3
Barclays Bank Plc Wholesale	17%	AA-	AA-	Aa3
Royal Bank Of Scotland Plc	13%	A+	AA-	Aa3
HSBC Bank Plc	12%	AA	AA	Aa3
JPMorgan Chase Bank	10%	AA-	AA-	Aa1
Westpac Banking Corporation	8%	AA	AA	AA2
Toronto Dominion Bank	7%	AA-	AA-	Aaa
BNP Paribas SA	4%	AA	AA-	Aa2
Royal Bank of Canada (UK)	3%	AA-	AA	Aa1
Societe Generale	2%	A+	A+	Aa2
Deutsche Bank AG London	1%	A+	AA-	Aa3

B. Interest Rate Risk

During Fiscal Year 2011 the Agency was exposed to interest rate risk. For more details refer to the Interest Rate Risk Note 3D (GASB Statement No. 40).

C. Foreign Currency Risk

The System's derivatives exposed it to foreign currency risk. For more details refer to the Foreign Currency Risk Note 3F (GASB Statement No. 40).

5. 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), were required to contribute 5% of earnable compensation for fiscal year 2011. 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 employer 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 150 participating governmental units make all of the employer and other (non-employer) contributions to the System.

6. 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, 2011 and 2010, the outstanding balances were $45,311 and $48,518 and (expressed in thousands), respectively. These payments are due over various time periods, based on the date of the employer's withdrawal.

7. 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, 2011 and 2010, refunds to members and withdrawing employers were as follows (*expressed in thousands*):

	2011	**2010**
Member refunds	$ 33,369	$ 33,266
Employer refunds	0	265
Total refunds	$ 33,369	$ 33,531

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2011 and 2010, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2011	**2010**
Administrative expenses	$ 3,218	$ 3,765
Investment management fees	26,203	24,052
Tax and other withholdings	27,591	23,264
Total	$ 60,012	$ 51,081

9. FUNDED STATUS AND FUNDING PROGRESS

Description of Schedule of Funded Status

The **Schedule of Funded Status** summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2011. The data presented in the schedule below was obtained from the System's independent actuary's annual valuation report as of June 30, 2011.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2011, the System's funded ratio increased from 64.14% to 64.70%.

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, 2011, the System's ratio of the unfunded actuarial accrued liability to its covered payroll increased from 182% at June 30, 2010 to 188% at June 30, 2011.

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 5).

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 fiscal years until 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.

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, 2011 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]
$36,177,656	$55,917,543	$19,739,887	64.70%	$10,478,800	188%

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2011
Actuarial Cost Method	Individual Entry Age Normal Cost Method
Amortization Method	Level percent of payroll (period closed)
Remaining Amortization Period	9 years remaining at June 30, 2011 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	2.75% to 3.50% (depending on system)

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 5.

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]
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
2009	34,284,569	52,729,171	18,444,603	65.02	10,714,241	172
2010	34,688,346	54,085,081	19,396,735	64.14	10,657,944	182
2011	36,177,656	55,917,543	19,739,887	64.70	10,478,800	188

** 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	Actual Contributions	Percentage Contributed
2002	$ 574,019	$ 574,019	100 %
2003	654,578	602,212	92
2004	710,632	632,462	89
2005	805,564	668,618	83 *
2006	874,079	716,745	82
2007	1,025,972	831,037	81
2008	1,183,765	1,053,551	89
2009	1,313,560	1,109,564	84
2010	1,519,980	1,308,920	86
2011	2,035,401	1,512,473	74

* 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 Teacher's 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.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2011 (with Comparative 2010 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2010	Totals 2009
Fund Balances, Beginning of Year	$ 3,684,909	$ 28,238,728	$ -	$ 31,923,637	$ 28,570,474
Additions					
Net investment (loss) income	-	6,494,580	(221,243)	6,273,337	4,016,359
Contributions (Note5):					
Employers	-	612,277	-	612,277	504,701
Members	528,028	-	-	528,028	535,581
Other	-	897,438	-	897,438	801,273
Contribution interest	-	2,757	-	2,757	2,947
Deductions					
Benefit payments	-	(2,580,392)	-	(2,580,392)	(2,445,540)
Refunds (Note 7)	(33,369)	-	-	(33,369)	(33,531)
Administrative expenses (Note 2E)	-	-	(30,961)	(30,961)	(28,627)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	174,794	(174,794)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(294,759)	294,759	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(252,204)	252,204	-	-
Net changes in fund balances	374,693	5,294,421	-	5,669,115	3,353,163
Fund Balances, End of Year	$ 4,059,602	$ 33,533,149	$ -	$ 37,592,752	$ 31,923,637

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2011 and 2010

(Expressed in Thousands)

	2011	2010
Personnel services		
Staff salaries	$11,681	$11,490
Fringe benefits	5,923	4,248
Total personnel services	17,604	15,738
Professional and contractual services		
Actuarial	665	466
Legal and financial	609	476
Consulting services	67	0
Data processing	7,545	7,663
Other contractual services	355	406
Total professional and contractual services	9,241	9,011
Miscellaneous		
Communications	756	668
Rent	1,835	1,912
Equipment and supplies	392	587
Other	1,133	711
Total miscellaneous	4,116	3,878
Total Administrative Expenses	$30,961	$28,627

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF INVESTMENT EXPENSES

for the Fiscal Years Ended June 30, 2011 and 2010

(Expressed in Thousands)

	2011	2010
Investment advisors		
Equity managers	$70,639	$59,124
Fixed income managers	29,829	19,326
Alternative investments managers	104,844	84,766
Cash fund managers	0	172
Total investment advisory fees	205,312	163,388
Other investment service fees		
Record Currency	13,399	14,407
Other investment expenses	2,532	906
Total other investment service fees	15,931	18,401
Total Investment Expenses	$221,243	$181,789

Note: Fiscal 2010 numbers have been reallocated for comparable purposes.

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MARYLAND STATE RETIREMENT

SCHEDULE OF PLAN NET

as of June 30, 2011

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets:			
Cash & cash equivalents	$ 1,228,307	$ 616,862	$ 31,796
Receivables:			
Contributions:			
Employers	-	14,869	301
Employers - Long Term	-	45,311	-
Members	2,521	6,382	3
Accrued investment income	58,708	33,195	739
Investment sales proceeds	435,168	246,064	5,476
Due from other systems	45	7	-
Total receivables	496,442	345,828	5,689
Investments, at fair value			
U.S. Government obligations	2,000,142	1,130,971	25,170
Domestic corporate obligations	1,899,710	1,074,181	23,906
International obligations	653,633	369,594	8,225
Domestic stocks	5,098,626	2,882,994	64,162
International stocks	5,594,054	3,163,131	70,396
Mortgages & mortgage related securities	1,566,144	885,569	19,708
Real estate	100,879	57,041	1,269
Alternative investments	5,080,980	2,873,016	63,938
Collateral for loaned securities	2,573,841	1,455,367	32,389
Total investments	24,568,009	13,891,864	309,163
Total assets	26,292,758	14,854,554	347,478
Liabilities:			
Accounts payable & accrued expenses	37,170	19,668	591
Investment commitments payable	915,336	517,572	11,519
Obligation for collateral for loaned securities	2,573,841	1,455,367	32,389
Other liabilities	1,404	796	18
Due to other systems	61	-	-
Total liabilities	3,527,812	1,993,403	44,517
Net assets held in trust for pension benefits	$ 22,764,946	$ 12,861,151	$ 302,961

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

AND PENSION SYSTEM

ASSETS BY SYSTEM

State Police Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 82,741	$ 43,016	$ 2,002,722	$ -	$ 2,002,722
1,911	1,488	18,569	-	18,569
-	-	45,311	-	45,311
232	155	9,293	-	9,293
2,813	1,370	96,825	-	96,825
20,848	10,153	717,709	-	717,709
-	13	65	(65)	-
25,804	13,179	887,772	(65)	887,707
95,824	46,664	3,298,771	-	3,298,771
91,013	44,321	3,133,131	-	3,133,131
31,314	15,250	1,078,016	-	1,078,016
244,269	118,953	8,409,004	-	8,409,004
268,004	130,512	9,226,097	-	9,226,097
75,032	36,539	2,582,992	-	2,582,992
4,833	2,354	166,376	-	166,376
243,424	118,542	8,379,900	-	8,379,900
123,310	60,049	4,244,956	-	4,244,956
1,177,023	573,184	40,519,243	-	40,519,243
1,285,568	629,379	43,409,737	(65)	43,409,672
1,807	776	60,012	-	60,012
43,852	21,355	1,509,634	-	1,509,634
123,310	60,049	4,244,956	-	4,244,956
67	33	2,318	-	2,318
4	-	65	(65)	-
169,040	82,213	5,816,985	(65)	5,708,194
$ 1,116,528	$ 547,166	$ 37,592,752	$ -	$ 37,592,752

MARYLAND STATE RETIREMENT

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			
Employers	$ 21,875	$ 464,563	$ 23,854
Members	316,971	197,300	1,813
Other	897,438	-	-
Contribution Interest	-	2,757	-
Total contributions	1,236,284	664,620	25,667
Investment income:			
Net appreciation (depreciation) in fair value of investments	3,276,391	1,827,125	41,621
Interest	210,391	119,381	2,683
Dividends	453,284	257,397	5,732
Real estate operating net income	13,607	7,725	173
Income before securities lending activity	3,953,673	2,211,628	50,209
Gross Income from securities lending activity	14,815	8,041	172
Securities lending borrower rebates	(3,258)	(1,834)	(36)
Securities lending agent fees	(1,842)	(991)	(22)
Net income from securities lending activity	9,715	5,216	114
Total investment income	3,963,388	2,216,844	50,323
Less investment expenses:			
Investment advisory fees	(133,937)	(76,048)	(1,692)
Net investment income	3,829,451	2,140,796	48,631
Total additions	5,065,735	2,805,416	74,298
Deductions:			
Benefit payments	1,525,781	896,041	24,381
Refunds (note 6)	16,476	16,138	-
Administrative expenses (note 2F)	16,536	13,776	46
Total deductions	1,558,793	925,955	24,427
Net increase (decrease) in plan assets	3,508,436	1,877,846	49,871
Net system transfers	1,494	(1,613)	-
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	19,256,510	10,983,303	253,090
End of the fiscal year	$22,764,946	$12,861,149	$ 302,961

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

AND PENSION SYSTEM

PLAN NET ASSETS BY SYSTEM

June 30, 2011

State Police Retirement System	Law Enforcement Officers' Pension System	Total
$ 44,915	$ 57,070	$ 612,277
6,339	5,605	528,028
-	-	897,438
-	-	2,757
51,254	62,675	2,040,500
141,146	73,623	5,359,906
10,265	4,817	347,537
22,043	10,338	748,794
664	309	22,478
174,118	89,087	6,478,715
845	376	24,249
(163)	(83)	(5,374)
(108)	(47)	(3,010)
574	246	15,865
174,692	89,333	6,494,580
(6,505)	(3,061)	(221,243)
168,187	86,272	6,273,337
219,441	148,947	8,313,837
97,905	36,284	2,580,392
380	375	33,369
215	388	30,961
98,500	37,047	2,644,722
(12)	131	-
120,929	112,031	5,669,115
995,599	435,135	31,923,637
$1,116,528	$ 547,166	$37,592,752

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Investment Section

CHIEF INVESTMENT OFFICER'S REPORT

INVESTMENT OVERVIEW

The Maryland State Retirement and Pension System returned 20.0 percent in fiscal year 2011. As a result, the market value of assets increased by approximately $5.7 billion, from $31.8 billion on June 30, 2010 to $37.5 billion on June 30, 2011. All major asset classes produced positive returns for the year and nearly all performed above their market benchmarks.

The System's fiscal year 2011 performance was led by public equities. The public equity program returned 28.8 percent, compared with a return of 31.3 percent for its blended benchmark. The program has three components. The U.S. public equity portfolio returned 32.4 percent, essentially matching the return of the Russell 3000 Index, which measures the performance of the largest 3,000 U.S. companies. The international equity portfolio returned 24.6 percent compared to 29.7 percent for its benchmark, the Morgan Stanley Capital International (MSCI) All Country World ex-U.S. Index. The global equity portfolio returned 29.7 percent compared to 30.1 percent for its benchmark, the MSCI AC World Index, a broad measure of stock performance in the developed and emerging markets. Most of the underperformance of the international and global equity programs relative to their respective benchmarks can be attributed to drag from the currency overlay program as a result of a weakening U.S. dollar relative to foreign currencies.

The fixed income portfolio returned 4.8 percent, compared to 3.5 percent for its blended benchmark: 80 percent Barclays Capital (BC) Aggregate Index and 20 percent BC Global Bond Aggregate Index. The credit opportunities portfolio returned 13.5 percent compared to 10.9 percent for its blended benchmark: 50 percent BC Credit Index and 50 percent BC High Yield Index. The portfolio was established in 2009 to take advantage of the dislocation in the credit markets, and is expected to provide near equity-like returns at a reduced level of risk.

The real return portfolio returned 13.1 percent, compared to 11.2 percent for its blended benchmark, which consists of the following three components:

- 20 percent Dow Jones UBS Commodities Index (total return);
- 20 percent Consumer Price Index + 5 percent, with this second component having a maximum total benchmark return of 8 percent; and
- 60 percent inflation linked bonds (consisting of 65 percent BC U.S. Treasury Inflation-Protected Securities (TIPS) Index and 35 percent BC Global Inflation Linked (U.S. dollar hedged) Index).

The absolute return portfolio returned 8.5 percent, compared to 6.7 percent for its customized benchmark: Hedge Funds Research, Inc. (HFRI) Fund of Funds Index. The real estate portfolio returned 23.3 percent versus 22.8 percent for its blended benchmark: Dow Jones Wilshire Real Estate Securities Index (DJW RESI), National Council of Real Estate Investment Fiduciaries Property (NCREIF), and the Financial Times Stock Exchange European Public Real Estate Association (FTSE EPRA) /National Association of Real Estate Investment Trust (NAREIT) Global indices.

The private equity program returned 24.5 percent, compared to the 21.9 percent return of its customized benchmark, the State Street Private Equity Index (one quarter lag).

The System's Terra Maria program returned 29.6 percent, compared to 30.1 percent for its customized benchmark. As more fully described below, the program is comprised of smaller investment management firms focusing primarily on equity and fixed income investments.

INVESTMENT POLICY AND OBJECTIVES

The Board of Trustees is charged with the responsibility of managing the assets of the Maryland 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 System's mission to optimize risk-adjusted returns to ensure that sufficient assets are available to pay benefits to members and beneficiaries when due. As a long-term investor, the System understands that short-term market fluctuations may be volatile.

Investment objectives are implemented according to investment policies developed by the Board. The "prudent person standard" allows for the setting of investment policies and delegation of authority to investment professionals employing active and passive strategies. Firms retained must have a demonstrated performance record and a clearly defined and consistently applied investment process.

The Board has managed the System's assets with the goal of achieving an annualized investment return that over a longer term time frame:

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 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, 2010 was 7.75 percent. The actuarial investment return assumption functions as an estimate of 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, which have an embedded sensitivity to changes in the inflation rate.

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

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

Asset allocation is a key determinant of a successful investment program. The Board considers the System's assets and liabilities when determining its asset allocation policy.

Asset allocation long-term policy targets are determined by recognizing that liabilities (future benefit payments to the System's 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 long-term asset class targets and ranges as of June 30, 2011 are shown below.

ASSET CLASS	LONG-TERM POLICY TARGET	RANGE
Domestic Equity		
International Equity		
Global Equity		
Total Public Equity	**36%**	**+/-4%**
Private Equity	10%	NA
Fixed Income	10%	+/-2%
Credit / Debt Strategies	10%	+/-2%
Real Estate	10%	NA
Real Return	15%	+/-3%
Absolute Return	7%	+/-2%
Cash	2%	+/-2%
TOTAL ASSETS	**100%**	

Due to the requirements of enacting a prudent pacing schedule to achieve full allocations to private market assets such as private equity and real estate, transitional allocations are implemented as assets are gradually and prudently deployed to private market asset classes. Assets not yet deployed to private equity or credit/debt strategies are assigned to the public equity transitional target. Assets not yet deployed to real estate or real return are assigned to the fixed income transitional target.

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 20.0 percent for fiscal year 2011. Annualized returns for the three-, five-, 10- and 20-year periods ending June 30, 2011 were 3.1 percent, 4.0 percent, 5.0 percent and 7.6 percent, respectively.

	FY 2011 SRPS Performance	FY 2011 Benchmark Performance	SRPS Exposure June 30, 2011
Public Equity	28.8%		42.7%
Custom Benchmark		31.3%	
U.S. Equity	32.4%		16.3%
S&P 500		30.7%	
Russell 3000		32.4%	
International Equity	24.6%		18.7%
MSCI ACWI ex. U.S.		29.7%	
MSCI EAFE		30.4%	
MSCI Emerging Markets		27.8%	
MSCI World ex U.S.		30.3%	
Global Equity	29.7%		12.2%
MSCI AC World		30.1%	
Private Equity	24.5%		4.3%
Custom State Street PE		21.9%	
Russell 3000 + 300 BPS		36.3%	
Fixed Income	4.8%		20.3%
Custom Benchmark		3.5%	
BC Aggregate		3.9%	
BC Global Bond Agg		2.1%	
Credit / Debt Strategies	13.5%		5.9%
Custom Benchmark		10.9%	
BC Credit		6.2%	
BC High Yield		15.6%	
Real Estate	23.3%		5.8%
Custom Benchmark		22.8%	
Wilshire RESI		35.7%	
NCREIF		16.0%	
FTSE EPRA NAREIT		32.1%	
Real Return	13.1%		10.4%
Custom Benchmark		11.2%	
Absolute Return	8.5%		4.4%
Custom Benchmark		6.7%	
TOTAL FUND	**20.0%**	**20.2%**	

The SRPS allocation as of June 30, 2011 reflects the ranges and transitional targets as described in the previous section.

ECONOMIC AND CAPITAL MARKET OVERVIEW

During fiscal 2011, global capital markets continued to recover from the Great Recession which ended in June 2009. Public equities registered the highest returns, fueled by strong corporate profitability and accommodative monetary policy. U.S. stocks, as measured by the Russell 3000 Index, returned 32.4 percent; while non-U.S. stocks, as measured by the MSCI ACWI ex-U.S. Index, returned 29.7%. Over fiscal year

2011, bonds returned 3.9 percent, as measured by the Barclays Capital Aggregate Bond Index.

As the fiscal year commenced, many expected that the U.S. economy would continue to grow at a healthy pace as a result of stimulative monetary policy in an effort to inflate asset prices. The Federal Reserve maintained the Federal Funds target rate at near zero percent. The Federal Reserve also instituted a second round of quantitative easing, dubbed QE2, in November of 2010. QE2 involved the purchase of $600 billion of Treasuries by the Federal Reserve. The objective of QE2 was to lower longer-term interest rates and spur economic activity.

However, as the fiscal year progressed, it became apparent that the economy was not growing as rapidly as had been hoped. During the second half of the 2010 calendar year, real Gross Domestic Product (GDP) was roughly 2.5%. By the second quarter of calendar year 2011, real GDP had slowed to 1.3%.

Several factors contributed to the sluggish growth in the second half of the fiscal year. The 9.1% unemployment rate remained stubbornly high, as businesses waited for demand to pick up before committing to increased capital investment and hiring. The U.S. housing market had still not recovered. Home prices were stalled or still falling, while the level of home sales remained depressed and inventories remained elevated.

Inflation during this time period picked up relative to the prior fiscal year. Consumer prices as measured by the Consumer Price Index (CPI) increased 3.6% over the twelve months ending June 30, 2011, while Core CPI (less energy and food) increased by 1.6%. Factors that likely contributed to the increase in consumer prices were an increase in commodity demand from China and a weak U.S. dollar.

As the fiscal year ended, the debate surrounding a possible double dip recession gained momentum. The sovereign debt crisis in Europe, disagreement over raising the debt ceiling in the U.S., high rates of unemployment, slowing economic growth and an unresolved U.S. housing market all weighed on investors and consumers. However, these negatives were partially offset by strong corporate balance sheets, historically low interest rates and benign inflation forecasts.

PUBLIC EQUITIES

As of June 30, 2011, approximately $17.7 billion of total assets were invested in public equities, representing 47.2 percent of total assets. The public equity program has three components: U.S. equities, international equities and global equities. The program is constructed without a home country bias. Accordingly, the weightings of the three components are adjusted from time-to-time, reflecting the investable public equity opportunity set.

The System's Terra Maria program, which is discussed below in more detail, is an integral part of the public equities asset class. At June 30, 2011, 79.4 percent of the Terra Maria program was invested in public equities with 46.9 percent in U.S. equities. Each of the managers in the Terra Maria program has an active management mandate.

A. U.S. Equities

As of June 30, 2011, approximately $6.1 billion or 16.3 percent of total assets was invested in U.S. equities. Passively managed large cap equities totaled $2.8 billion, while actively managed assets outside of the Terra Maria program totaled $1.8 billion and Terra Maria program assets were $1.5 billion, representing 7.5 percent, 4.7 percent, and 4.1 percent of total assets, respectively.

U.S. Equity	$ Millions	% of Total Plan
Passively Managed	**$2,824.4**	**7.5%**
Actively Managed (exclude T.M.)	**1,757.8**	**4.7%**
Terra Maria Program	**1,547.4**	**4.1%**
Total U.S. Equity	**$6,131.3**	**16.3%**

For FY 2011, U.S. equities returned 32.4 percent, matching the return of its benchmark, the Russell 3000 Index.

B. International Equities

As of June 30, 2011, approximately $7.0 billion or 18.7 percent of total assets were invested in international equities. Passively managed developed market equities totaled approximately $2.2 billion, while actively managed assets outside of the Terra Maria program totaled approximately $4.1 billion and Terra Maria assets were $0.8 billion, representing 5.8 percent, 11.1 percent and 2.2 percent of total assets, respectively. As more fully described below, the System has instituted a currency overlay program which is designed to protect the value of international equities in a rising dollar environment and reduce volatility.

International Equity	$ Millions	% of Total Plan
Passively Managed	$2,164.6	5.8%
Actively Managed (exclude T.M.)	4,147.0	11.1%
Terra Maria Program	809.6	2.2%
Currency Overlay	(108.7)	(0.3%)
Total International Equity	$7,012.7	18.7%

For FY 2011, international equities returned 24.6 percent compared to 29.7 percent for its benchmark, the MSCI All Country World ex-U.S. Index.

C. Global Equities

As of June 30, 2011, approximately $4.6 billion or 12.2 percent of total assets were invested in global equities. Actively managed assets outside of the Terra Maria program totaled $4.3 billion, and Terra Maria assets were $0.3 billion, representing 11.6 percent and 0.7 percent of total assets, respectively. The currency overlay program, which is designed to protect the value of global equities in a rising dollar environment and reduce volatility, is applied to the global equity program.

Global Equity	$ Millions	% of Total Plan
Actively Managed (exclude T.M.)	$4,346.8	11.6%
Terra Maria Program	264.5	0.7%
Currency Overlay	(39.5)	(0.1%)
Total Global Equity	$4,571.8	12.2%

For FY 2011, global equities returned 29.7 percent compared to 30.1 percent for its benchmark, the MSCI All Country World Index.

CURRENCY MANAGEMENT PROGRAM

The currency management program was implemented in April of 2009, and is managed by Record Currency Management. An objective of the program is to provide insurance against a strengthening dollar, which could negatively impact returns from foreign currency-denominated equities. The manager uses a systematic currency overlay strategy and does not make fundamental currency valuation assessments. The strategy is also dynamic in that the degree to which currency hedging is applied changes depending on currency market conditions. As a general rule, the manager uses low hedge ratios when the dollar is weak and high hedge ratios when the dollar is strong.

During fiscal year 2011, the currency program detracted from returns in the international and global public equity programs as the U.S. dollar weakened significantly relative to other currencies. The cost to the System's portfolio as a result of using this systematic currency overlay strategy was $362.7 million. While the currency program acted as a drag on performance during the fiscal year, it has served to reduce volatility and improve the risk/return profile of the international and global equity programs since its inception.

PRIVATE EQUITY

As of June 30, 2011, private equities totaled roughly $1.6 billion, or 4.3 percent of total assets. This asset class includes buyouts, growth equity, venture capital, secondaries and funds of funds.

In fiscal year 2011, commitments were made to six private equity funds totaling $403.3 million. Since the inception of the private equity program, commitments have been made totaling roughly $3.7 billion to 87 different funds. In fiscal year 2011, the private equity program returned 24.5 percent, compared to the benchmark's return of 21.9 percent.

In fiscal 2012, we expect that exposure to private equity will continue to increase toward its long-term targeted levels as unfunded commitments of $2.1 billion are drawn down. We have seen a return to a more normal cycle of distributions and capital calls and we expect an increased pace of new commitments relative to the previous two fiscal years. It will take several more years for the target allocation of 10.0 percent to be reached in a prudent manner.

FIXED INCOME

The fixed income markets performed within a normal range during fiscal 2011. Interest rates fell on the short end of the curve and rose on the long end of the curve during the year. Investment grade and below-investment grade securities continued to perform well. As of June 30, 2011, fixed income holdings represented $7.6 billion, or 20.3 percent of total assets. The relative performance of the fixed income portfolio was strong, returning 4.8% for the fiscal year, versus 3.5 percent for the policy benchmark.

CREDIT/DEBT STRATEGIES

The credit opportunities portfolio totaled approximately $2.2 billion, representing 5.9 percent of total assets as of June 30, 2011. Investments in this asset class include both liquid securities and illiquid private structures. The System has funded the program with mezzanine debt, high yield debt, distressed debt, emerging market debt, the Public-Private Investment Program (P-PIP), and flexible mandates that allow manager discretion to invest across a broad credit spectrum. The portfolio has a blended benchmark of 50 percent BC U.S. Credit Index and 50 percent BC U.S. High Yield Index. The portfolio returned 13.5 percent for the fiscal year ending June 30, 2011, versus 10.9 percent for its benchmark as the credit markets continued to recover with the overall economy.

In fiscal 2012, we expect that credit opportunities exposure will continue to increase toward its long-term target of 10 percent of plan assets, as unfunded commitments are drawn down and more investments are made in the asset class.

REAL ESTATE

The real estate portfolio returned 23.3 percent in fiscal year 2011, versus 22.8 percent for its custom benchmark, a blend of the NCREIF, FTSE-EPRA NAREIT and Wilshire indices. At the end of the fiscal year, 5.8 percent of total assets, valued at $2.2 billion, was invested in real estate, compared to 6.3 percent or $2.0 billion invested at the same time last year. The program includes direct investments, publicly-traded securities, and private investment funds. There was one investment made in May 2011 in a private real estate fund.

Private real estate improved with the performance of the NCREIF property index, a widely utilized measure of privately owned commercial real estate. The NCREIF property index was up 16.0 percent for the year ending March 31, 2011. Returns for all four major property types rebounded during the period. Public real estate securities, as measured by the Wilshire Real Estate Securities Index and the FTSE –EPRA Global ex-U.S. Index, had one-year returns of 35.7 percent and 32.1 percent respectively.

Long-term improvement in commercial real estate fundamentals is driven by employment growth. Continued economic uncertainty has left companies unwilling to hire, and has delayed meaningful improvement in overall property fundamentals. Multi-family has seen the strongest improvement in fundamentals while other major property types look to have stabilized.

Investment activity heavily favors multi-family and central business district core office properties in the nation's leading markets, such as Washington, DC, New York City, Boston and San Francisco. Strong investor demand, coupled with a lack of supply for core properties in primary markets and low interest rates, has led to a tightening of cap rates in these markets. This has created a rebound in pricing for real estate, but price appreciation has been largely limited to assets in core markets, while assets in secondary markets have not experienced the same kind of rebound. Some investors are beginning to question the high prices being paid for trophy buildings given real estate fundamentals and may begin to look at secondary markets as a value opportunity.

The real estate debt markets were more active in making loans for core properties, with insurance companies, banks, private debt funds and CMBS participating. The asset class as a whole still struggles with the high volume of maturing loans that are likely to require substantial capital. There is $1.4 trillion of real estate debt maturing by 2014 and many of these properties are worth less than the principal balance on the loan. It is uncertain if investors will meet the demand.

REAL RETURN

The real return portfolio totaled approximately $3.9 billion, representing 10.4 percent of total assets as of June 30, 2011. The objective of the asset class is to provide a level of protection against inflation and enhance diversification for the total fund. As of June 30, 2011, the largest components of the asset class were Treasury Inflation Protected Securities (TIPS) and global inflation-linked bonds totaling $2.0 billion, or 5.3 percent of total assets. There was also a large allocation to multi-asset class portfolios with a real return mandate, representing $816 million, or 2.2 percent of total assets. The remaining assets consist of commodities, energy-related assets, infrastructure and timber.

The real return portfolio returned 13.1 percent in fiscal 2011 versus 11.2 percent for its custom benchmark. Active management in the multi-asset portfolios was the main driver of outperformance relative to the benchmark.

ABSOLUTE RETURN

The absolute return portfolio totaled approximately $1.6 billion, representing 4.4 percent of total assets as of June 30, 2011. The portfolio consists of three global macro funds and two funds of funds. Its goal is to provide diversification for the total plan through its low correlation to the broad financial markets. It is benchmarked to the HFRI Fund of Funds Composite Index. The portfolio outperformed the benchmark in fiscal 2011, returning 8.5 percent versus 6.7 percent for the HFRI Index.

TERRA MARIA PROGRAM

Terra Maria assets totaled approximately $3.3 billion, or 8.8 percent, of total assets at June 30, 2011. The program returned 29.6 percent for the fiscal year, compared to the custom benchmark's 30.1 percent return. The relative performance results remain positive since the April 2007 inception of the emerging manager program.

The Terra Maria program seeks to identify promising smaller or developing managers. The seven existing public market program managers serve as an extension of staff to source investment managers, perform manager due diligence, monitor managers and prepare manager "hire/fire" and funding recommendations. The seven program managers are Attucks Asset Management, Bivium Capital Partners, Capital Prospects, FIS Group, Leading Edge Investment Advisors, Northern Trust Global Advisors and Progress Investment Management Company. During fiscal year 2011, the Terra Maria program was expanded to include investments in private equity partnerships. The Chief Investment Officer has the ultimate responsibility for making manager selection and termination decisions, as well as determining funding allocations.

CONCLUSION

The investment results achieved in fiscal year 2011 are among the highest on record, as global capital markets continued to recover from the Great Recession. However, these returns are unlikely to be repeated in the near term. The global economy and capital markets face many challenges, producing rapidly changing conditions for investors. The Investment Division will continue to monitor these challenges and developments, while seeking opportunities to improve the risk/return profile of the portfolio.

I am proud of the fiscal year 2011 investment results and appreciative of the combined efforts of the agency's investment staff, as well as former CIO Mansco Perry and our investment consultants. I am also grateful for the trust, support and guidance of the Board of Trustees as we continue to manage risk and seek out attractive investment opportunities.

Respectfully submitted,

A. Melissa Moye, Ph.D.
Chief Investment Officer

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2011 and 2010
(Expressed in Thousands)

	2011		2010	
	Fair Value	**% of Fair Value**	**Fair Value**	**% of Fair Value**
Fixed Income				
Fixed Income	$ 8,096,399	21.5%	$ 5,918,173	18.5%
Credit Opportunity	2,165,396	5.8	1,068,734	3.4
**Net cash & cash equivalents (manager)	-408,642	-1.1	143,682	0.5
Total Fixed Income	**9,853,153**	**26.2**	**7,130,589**	**22.4**
Equity				
Domestic stocks	6,045,861	16.2	6,250,917	19.7
Global stocks	4,518,542	12.0	2,941,746	9.2
International stocks	6,948,271	18.5	6,815,839	21.4
**Net cash & cash equivalents (manager)	203,168	0.5	281,466	0.9
Total Equity	**17,715,842**	**47.2**	**16,289,968**	**51.2**
Alternate Investment				
Absolute Return	1,639,961	4.4	1,422,125	4.5
Private Equity	1,618,325	4.3	1,009,433	3.2
Real Estate (includes private)	2,152,166	5.7	2,041,430	6.3
Real Return	3,773,469	10.2	3,245,931	10.2
**Net cash & cash equivalents (manager)	103,452	0.3	54,637	0.2
Total Alternate Investments	**9,287,373**	**24.9**	**7,773,556**	**24.4**
Cash				
*Total Cash (non-manager)	**652,199**	**1.7**	**646,874**	**2.0**
Total Portfolio	**$37,508,567**	**100.0%**	**$31,840,987**	**100.0%**

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

** *Includes investment receivables and payables.*

Note: This schedule includes assets invested on behalf of the Maryland Transit Administration.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2011
(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$4,059,626	$ 801
BlackRock Financial Management, Inc.	929,368	314
T. Rowe Price Associates, Inc.	901,832	3,586
Baillie Gifford & Company	630,664	2,981
UBS Global Asset Management, Inc.	621,581	2,059
Marathon Asset Management	604,719	5,441
Dimensional Fund Advisors, Inc.	603,611	2,869
Invesco Global Asset Management, Inc.	601,802	2,668
Northern Trust Global Advisors, Inc.*	557,840	2,693
Templeton Investment Counsel, Inc.	548,725	1,753
Acadian Asset Management	529,082	1,876
Relational Investors	514,696	4,431
McKinley Capital Management, LLC	484,269	2,242
Artisan Partners Limited Partnership	484,259	2,793
Brown Capital Management	449,500	2,526
Progress Investment Management*	445,131	2,327
Earnest Partners	406,379	2,030
FIS Group, Inc.*	366,182	1,581
Capital Prospects, LLC*	350,680	1,992
Genesis Asset Management	344,525	2,531
Attucks Asset Management, LLC*	312,511	1,787
Leading Edge Investment Advisors, LLC*	306,744	2,451
Goldman Sachs Asset Management	288,458	1,482
Bivium Capital Partners*	279,928	1,177
Legg Mason Capital Management, Inc.	260,468	726
Zevenbergen Capital Investment LLC	256,090	933
Longview Partners Ltd.	254,285	1,465
AQR Capital Management LLC	252,370	924
D E Shaw & Co., LP	247,494	1,111
Rexiter Capital Management Limited	237,811	1,349
Alliance Bernstein	232,453	1,389
Capital International Investments	218,721	704
Robeco Investment Management	215,900	1,199
Record Currency Management	(148,219)	13,399
Other **	66,357	4,750
	$17,715,842 (1)	$ 84,340

	Fair Value	Investment Advisory Fee
Fixed Income Managers		
Credit/Debt Related*	$ 2,001,250	$ 19,415
State Street Global Advisors	1,869,579	247
Western Asset Management	1,359,085	2,161
Pacific Investment Management Company	1,294,926	2,745
Pyramis Global Advisors	528,884	620
Aberdeen Asset Management, Inc.	525,981	974
Principal Global Investors	523,613	496
Dodge & Cox	367,762	544
Goldman Sachs Asset Management	362,752	738
BlackRock Financial Management, Inc.	340,315	676
Progress Investment Management*	269,342	270
Northern Trust Global Advisors, Inc.*	140,085	153
Attucks Asset Management, LLC*	99,403	300
Capital Prospects, LLC*	60,929	3
Leading Edge Investment Advisors, LLC*	54,957	285
Bivium Capital Partners*	54,218	175
Other **	72	179
	$ 9,853,153 (1)	$ 29,981
Alternative Investment Managers		
Real Return*	$ 3,869,973	$ 20,182
Absolute Return*	1,635,113	23,391
Private Equity Funds*	1,618,325	37,616
Private Real Estate*	1,161,890	19,162
Morgan Stanley Investment Management	456,113	2,513
LaSalle Investment Management, Inc.	545,756	2,379
Other **	203	1,285
	$ 9,287,373 (1)	$ 106,528
Cash Managers		
Internally Managed	$ 652,199	$ N/A
	$ 652,199 (1)	$ 0

* *Separately listed on the following page*
** *Consulting fees and investment managers no longer under contract as of 6/30/11*
(1) Includes assets invested on behalf of the Maryland Transit Administration

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS RELATIONSHIP LISTING

as of June 30, 2011

Private Equity

Abbott Capital Private Equity Fund III
ABS Capital Partners VI LP
Adams Street Partners LLC
Advent Central & Eastern Europe IV LP
Advent International GPE V-D LP
Advent International GPE VI-A LP
Alchemy Partners LP
Apax Europe VI-A LP
Apax Europe VII-A LP
Apax France VIII
Apollo Investment Fund VII (AIF) LP
Arcadia II Beteiligungen BT GmbH & Co
Audax Private Equity Fund II LP
Audax Private Equity Fund III LP
Azure Capital Partners II LP
Bain Capital Fund IX LP
Bain Capital IX Coinvestment Fund LP
Bain Capital Fund X LP
Bain Capital X Coinvestment Fund LP
BC European Capital VIII LP
Black River Capital Partners Fund (Agriculture A) LP
Brazos Equity Advisors III LP
Bunker Hill Capital II LP
Calvert Street Capital Partners III
Camden Partners Strategic Fund IV
Carlyle Partners V LP
Charterhouse Capital Partners VIII LP
Charterhouse Capital Partners IX LP
Clayton, Dubilier & Rice Fund VIII
Commonwealth Capital Ventures IV LP
CVC European Equity Partners V-B LP
Dover Street VII LP
ECI 8 LP
ECI 9 LP
Everstone Capital Partners II LLC
Frazier Healthcare V LP
Frazier Healthcare VI LP
Goldman Sachs Vintage Fund V LP
Graphite Capital Partners VII
Graphite Capital Partners VII Top Up
Great Hill Equity Partners III
Great Hill Equity Partners IV
Hancock Park Capital III
HarbourVest Partners VI Buyout Fund
HarbourVest Partners VI Partnership Fund
Hellman & Friedman Investors VI LLC
HgCapital 5 LP
HgCapital 6A LP
KKR European Fund III LP
Landmark Equity Partners XIV
Lexington Capital Partners VII
Lion Capital Fund I LP
Lion Capital Fund II LP
Littlejohn Fund III LP
Littlejohn Fund IV LP
Longitude Venture Partners LP
Madison Dearborn Capital Partners V LP
Madison Dearborn Capital Partners VI LP
Navis Asia Fund VI
New Mountain Partners III LP
North Sky Clean Tech Fund IV LP
Partners Group Secondary 2009 LP
Permira IV LP 2
Private Equity Partners Fund IV
Quaker BioVentures II
Riverside Capital Appreciation V LP
Riverside Europe Fund IV LP
RLH Investors II LP
Summer Street Capital Fund II LP
Symmetric Partners LP
TA X LP
TA XI LP
TPG Partners VI LP
Triton Fund III
Valhalla Partners II LP
Vector Capital IV LP
Vestar Capital Partners V LP
Wind Point Partners VII LP
Yucaipa American Alliance Fund II 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 Maryland Limited Partnership
Frogmore Real Estate Partners II
GI Partners Fund III LP
JER Europe Fund III LP
JER Real Estate Partners Fund IV LP
JP Morgan Investment Management Inc
Lion Industrial Trust
Lone Star Real Estate Fund II
Lubert Adler Real Estate Fund III
Lubert Adler Real Estate Fund VI and VI-A
MGP Asia Fund III LP
PRISA II (Prudential Real Estate Investors)
Realty Associates Fund IX
Rockwood Capital Real Estate Partners Fund VIII LP
Secured Capital Japan Real Estate Partners Asia LP
Secured Capital Japan Real Estate Partners IV LP
Starwood Debt Fund II LP
Starwood Hospitality Fund II

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS RELATIONSHIP LISTING

as of June 30, 2011

(continued)

Real Return

Alinda Infrastructure Fund II
Black River Commodity Energy Opportunity
BlackRock U.S. Tips
Bridgewater All Weather
First Reserve Fund XII LP
Global Timber Investors 9
Goldman Sachs Real Return Tips
Hancock Timber X LP
Harvest Fund Advisors
Natural Gas Partners IX LP
Natural Gas Partners VIII LP
Neuberger Berman Commodities
NGP Midstream & Resources LP
PIMCO All Asset
PIMCO Global Inflation Linked Bonds
PIMCO US Tips
Quantum Energy Partners IV LP
Quantum Energy Partners V LP
Schroder Commodity Fund
Timbervest Partners III LP
Tortoise Capital Advisors
Vermillion/Celadon Commodities Fund
Western Asset US Tips
Western Global Bonds
White Deer Energy

Absolute Return

BGI Global Ascent
Bridgewater Pure Alpha
DGAM Diversified Strategies Fund
Front Point Multi Strategy Fund
Mellon Global Alpha II
Rock Creek Potomac Fund

FIXED INCOME RELATIONSHIP LISTING

as of June 30, 2011

Credit/Debt Related

AG-GECC Public-Private Investment Fund LP
Alchemy Special Opps Fund II
Blackrock Credit Investors II
CarVal Credit Value Fund A LP
EIG Energy Fund XV
Falcon Strategic Partners III
KKR Flexible Credit
KKR Mezzanine Partners 1
LBC Credit Partners II LP
Marathon Public Private Investment Fund
Merit Mezzanine Fund V
Neuberger Berman Flexible Credit
Oaktree Capital Management
Oaktree Capital Opportunity Fund VIII
Oaktree Principal Fund V
Park Square Fund II
Partners Group European Mezzanine 2008 LP
Peninsula Fund V
Perella Weinberg Partners
PIMCO Distressed Senior Credit Opportunities Fund
Prudential Capital Partners III
Rexiter Emerging Market Debt
RLJ Western Asset Public/Private Fund LP
TA Subordinated Debt Fund III
TCW Credit Opportunities Fund I B
Varde Fund X
Wellington PPIF Management - Advent Legacy

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

TERRA MARIA PROGRAM
as of June 30, 2011

Terra Maria Program

Attucks Asset Management
Advent Capital Management
Apex Capital Management
Brown Investment Advisory
Charter Financial Group
Chicago Equity Partners
Globeflex Capital LP
GW Capital Inc
Hanseatic Management Services Inc
Holt-Smith Advisors Inc
Hughes Capital Management
LM Capital Group LLC
Lombardia Capital Partners LLC
Mar Vista Investment Partners
Nicholas Investment Partners
Opus Capital Management
Paradigm Asset Management Co.
Philippe Investment Management Inc
Seizert Capital Partners
The Edgar Lomax Company
Thomas White International LTD
Xavier Capital Management
Bivium Capital Partners
ARGA Investment Management LP
Aristotle Capital Management
Bailard Inc
Chautauqua Capital Management LLC
Cheswold Lane Asset Management LLC
Cornerstone Capital Management Inc
Cupps Capital Management
Phocas Financial Corporation
SW Asset Management LLC
Three Peaks Capital Management LLC
Vulcan Value Partners
WCM Investment Management
Capital Prospects LLC
AH Lisanti Capital Growth LLC
Bernzott Captial Advisors
Geneva Capital Management Ltd
Inview Investment Management LLC
Lesa Sroufe & Co.
Matrix Asset Advisors Inc
Next Century Growth Investors LLC
Paradigm Asset Management Co LLC
Piedmont Investment Advisors LLC
Profit Investment Management
Redwood Investment LLC
SeaCrest Investment Management
Twin Capital Management Inc
Valley Forge Asset Management
Walthausen & Co LLC
FIS Group
Advanced Investment Advisors
Ativo Capital Management
Bedlam Asset Management PLC
Boston Common Asset Management
Channing Capital Management LLC
Greenfield Seitz Capital Management LLC
Hanoverian Capital Management
New Amsterdam Partners
Redwood Investment LLC
Seizert Capital Partners
Stux Capital Management LCG
Thomas White International Ltd
Victoria 1522 Investments
Leading Edge Investment Advisors
Driehaus Capital Management LLC
Gratry & Company Inc
Herndon Capital Management
Kirr, Marbach & Co.
Markston International LLC
Mindshare Capital Management LLC
New Century Investment Management Inc
Nicholas Investment Partners
Penn Capital Management Co Inc
Reed, Conner & Birdwell
SIT Investment Associates Inc
Westwood Global Investments
Northern Trust
ClariVest Asset Management LLC
Cornerstone Investment Partners
Credo Capital Management
Dolan McEniry Capital Management
Eagle Global Advisors
Herndon Capital Management
Hexavest Inc
JK Milne Asset Management
Lombardia Capital Partners
Longfellow Investment Management
Magee Thompson Investment Partners
New Century Advisors
Palisades Investment Partners
Profit Investment Management
Riverbridge Partners
Signia Capital Management
Sky Investment Council
Strategic Global Advisors
Summit Creek Advisors
Twin Capital Management Inc
Progress Investment Management
Affinity Investment Advisors LLC
Ambassador Capital Management
ARGA Investment Management LP
Ariel Investments LLC
Boston Common Asset Management
Channing Capital Management
Chautauqua Capital Management
Credo Capital Management
Decatur Capital Management
DSM Capital Partners LLC
Garcia Hamilton
Ironwood Investment Management LLC
John HSU Capital Group Inc
New Century Advisors
Pugh Capital Management Inc
SanJuan Asset Management

Bold denotes Program Manager for the Terra Maria Program

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

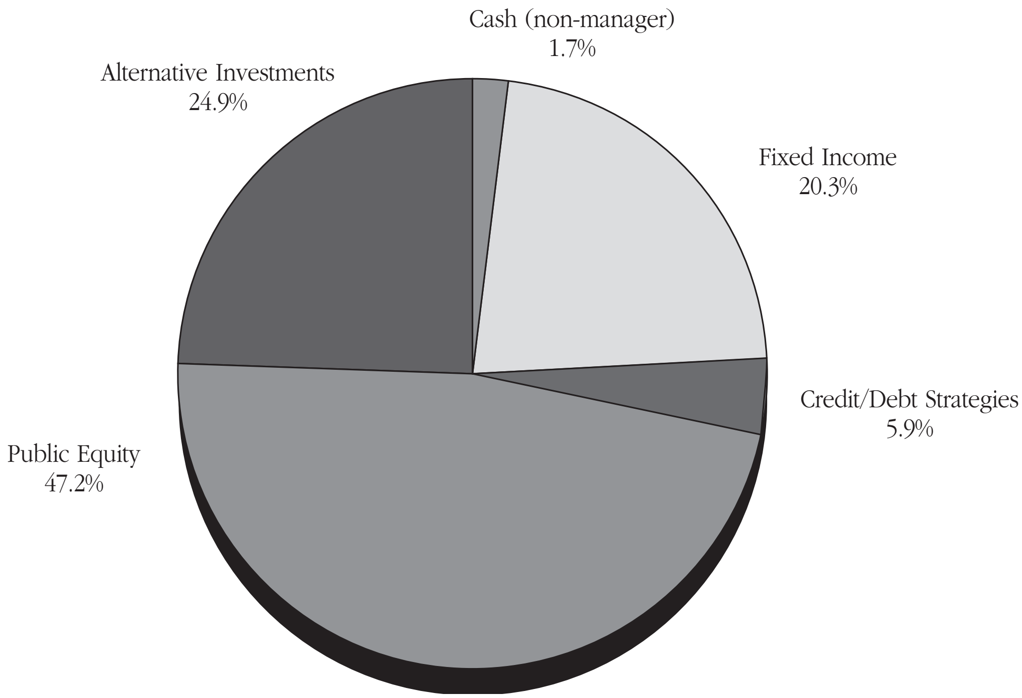
EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2011
(Expressed in Thousands)

Brokers *	Total Shares	Total Commission
Credit Suisse Securities	289,321	$ 1,095
Merrill Lynch	158,457	1,060
UBS	139,363	655
Macquarie Securities	138,447	301
Morgan Stanley	106,131	865
Instinet	100,965	386
Goldman Sachs	100,589	672
State Street Gobal Markets	100,258	553
Pershing	84,481	438
J P Morgan Securities	83,575	924
Credit Lyonnais	78,031	138
Citigroup Global Markets	72,657	487
Investment Technology Group	65,588	202
Nomura Securities	59,038	344
Deutsche Bank	58,720	472
G Trade Services Ltd.	53,895	197
Barclays Capital, Inc.	33,847	494
Jefferies & Company	19,962	489
Societe Generale	19,192	204
Credit Agricole	16,178	234
BNY Brokerage	13,840	426
Knight Securities	10,879	189
Sanford C. Bernstein	7,868	165
RBC Capital Markets	6,747	145
Loop Capital Markets	6,673	124
Melvin Securities	5,329	146
Cabrera Capital Markets	4,241	115
Stifel Nicolaus & Co., Inc.	4,017	146
Percival Financial	3,826	140
Citation Group	3,676	104
Baird, Robert W & Co., Inc.	2,724	114
Other Broker Fees	447,924	4,079
Total broker commissions	2,296,439	$ 16,103

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

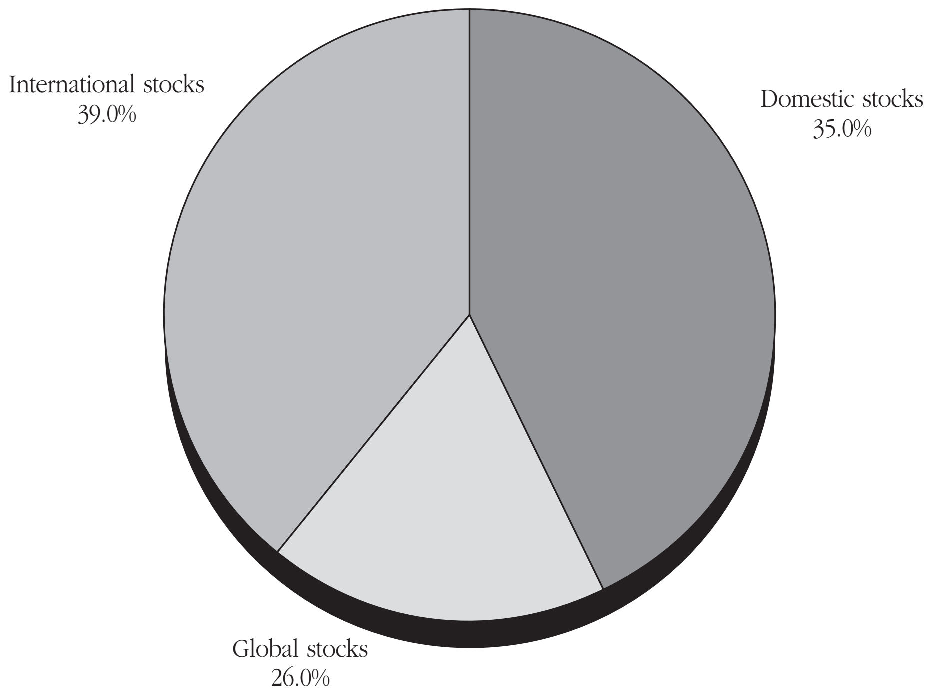
For the fiscal year ended June 30, 2011, total domestic equity commissions averaged .97 cents per share, and total international equity commissions averaged 10.91 basis points per share.

INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2011



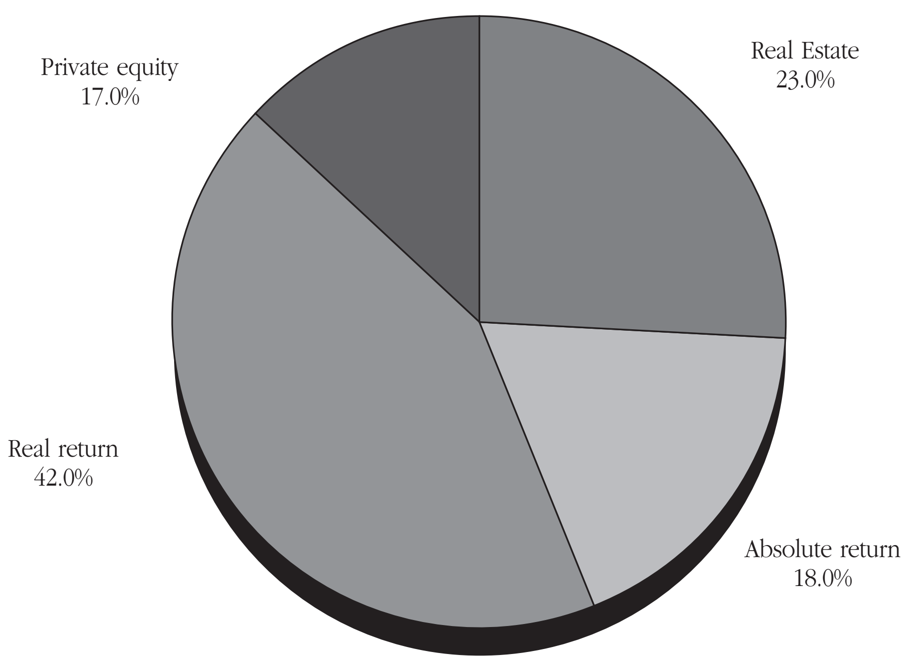
EQUITY DISTRIBUTION BY TYPE

as of June 30, 2011

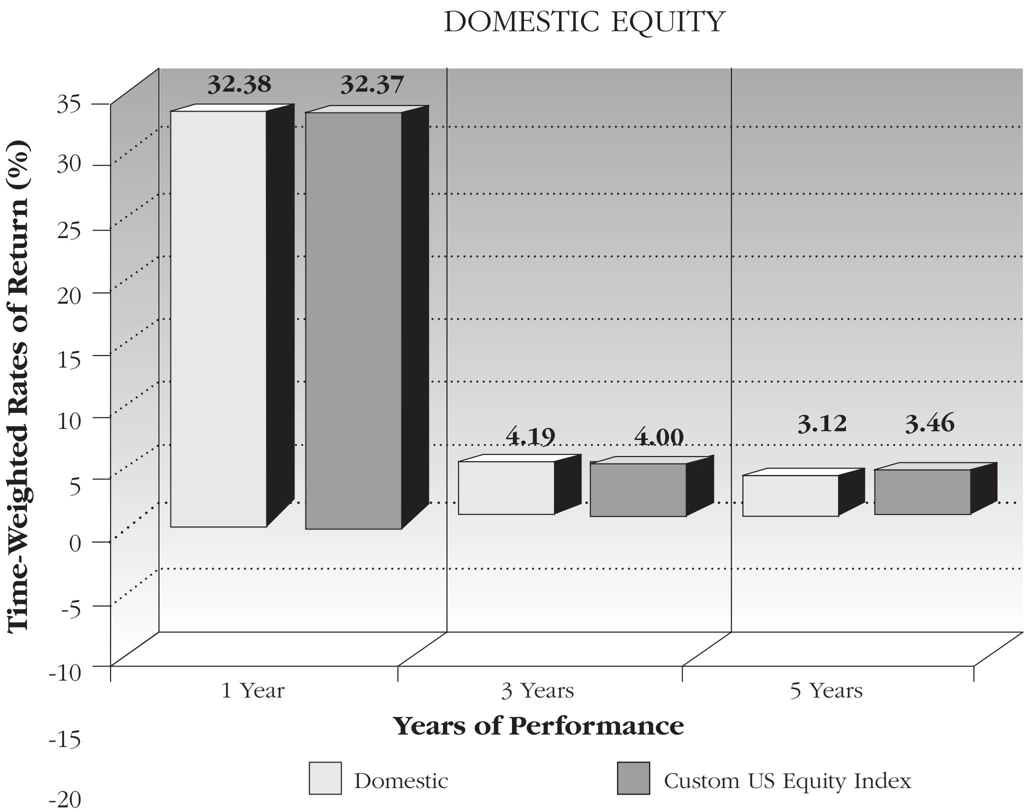


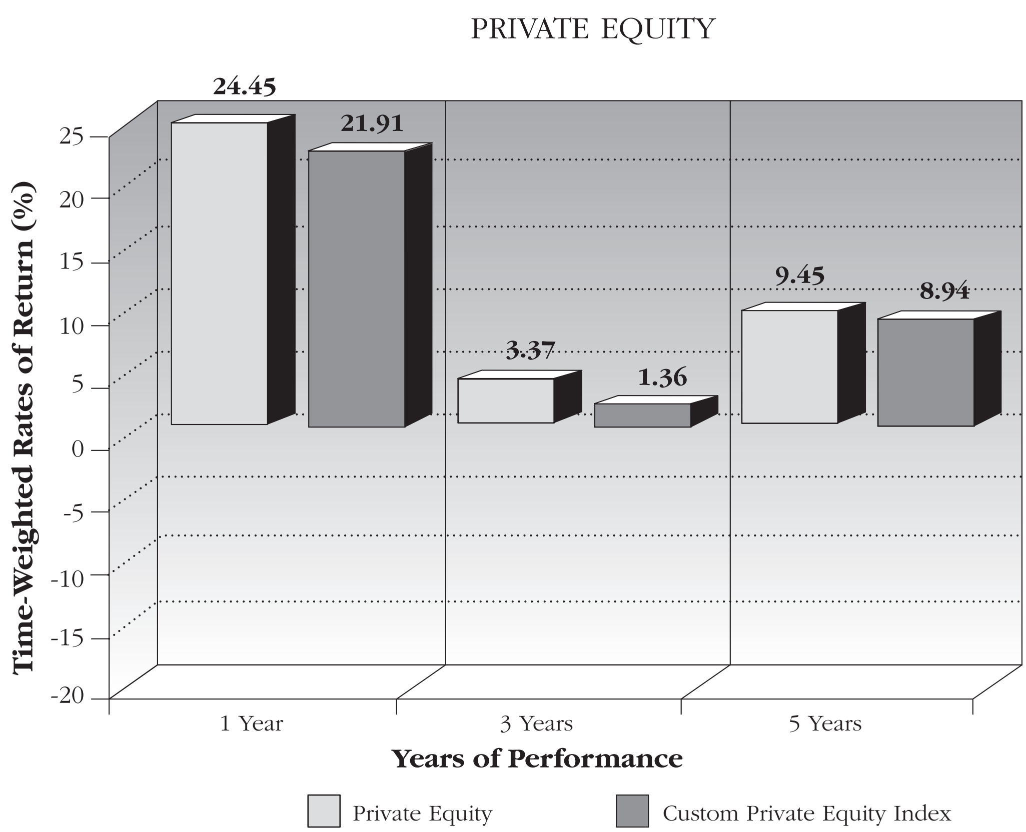
ALTERNATE INVESTMENT DISTRIBUTION BY TYPE

as of June 30, 2011

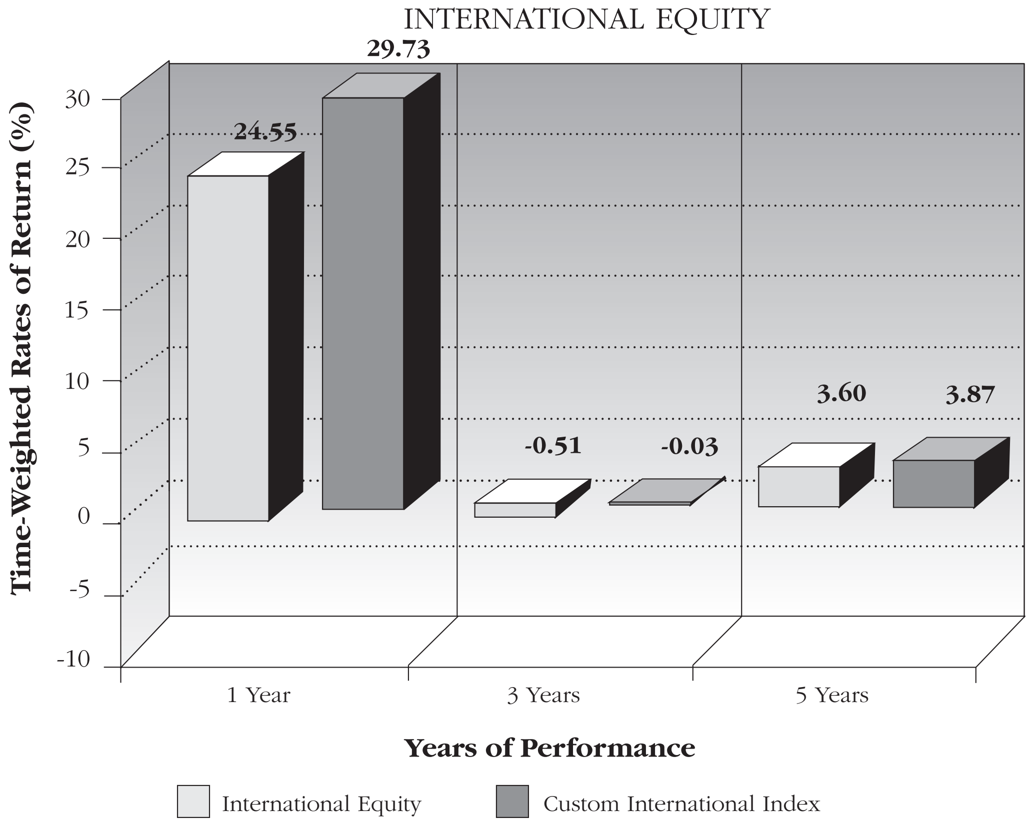


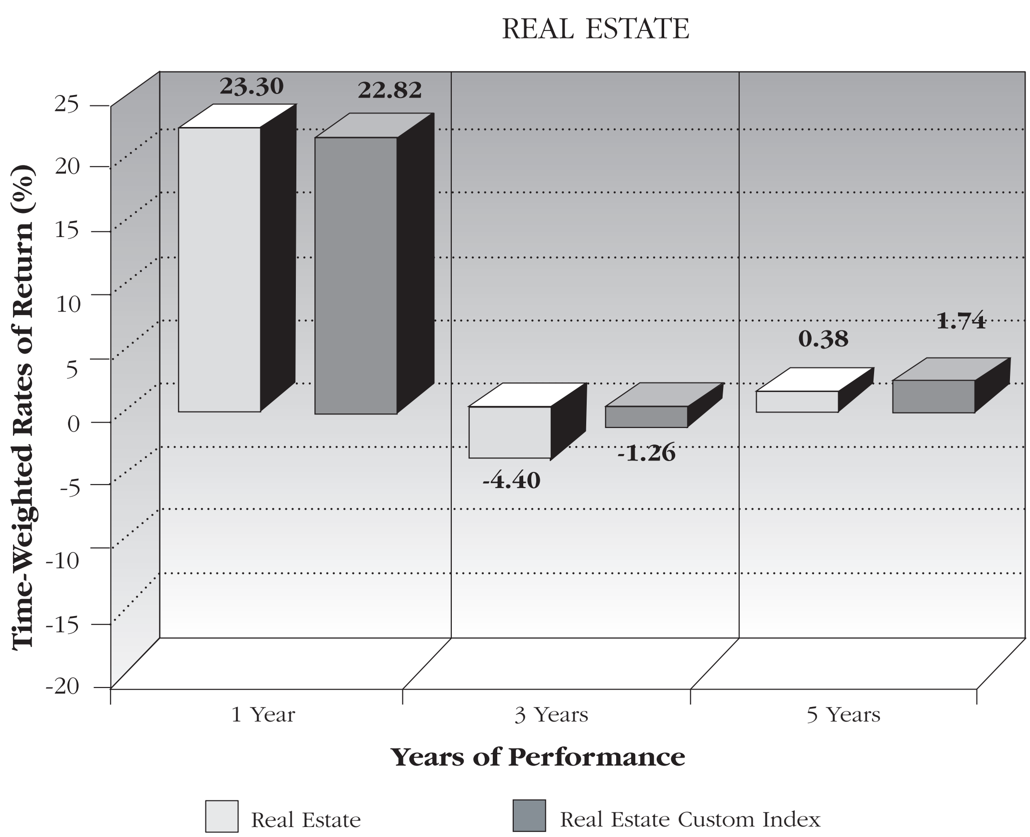
Comparative Investment Returns Ending June 30, 2011



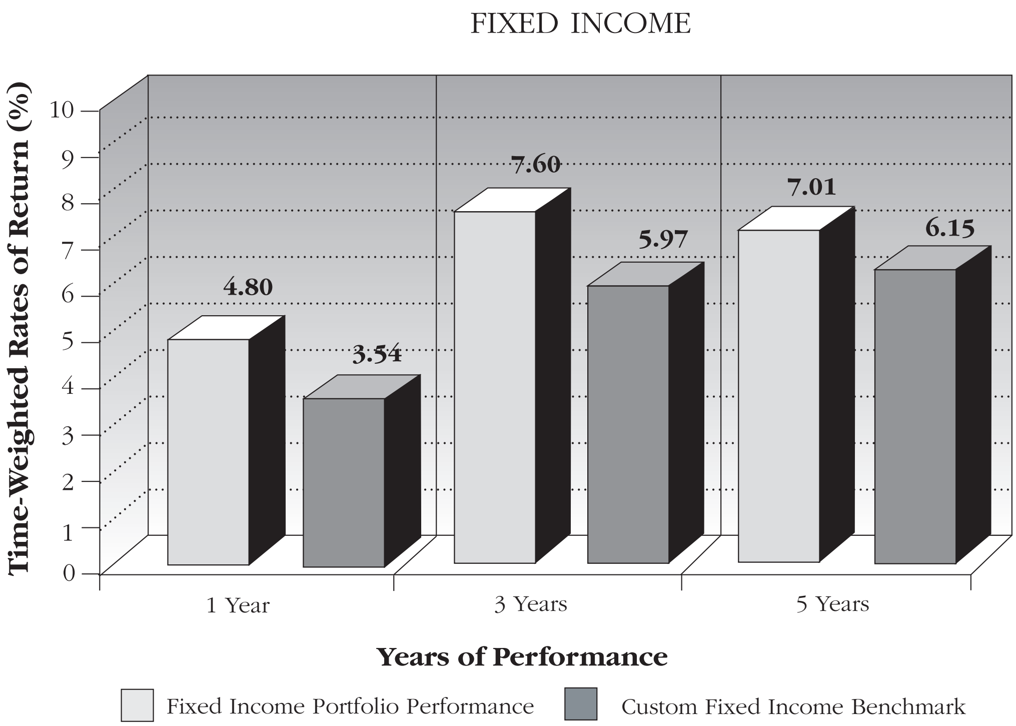


Comparative Investment Returns Ending June 30, 2011

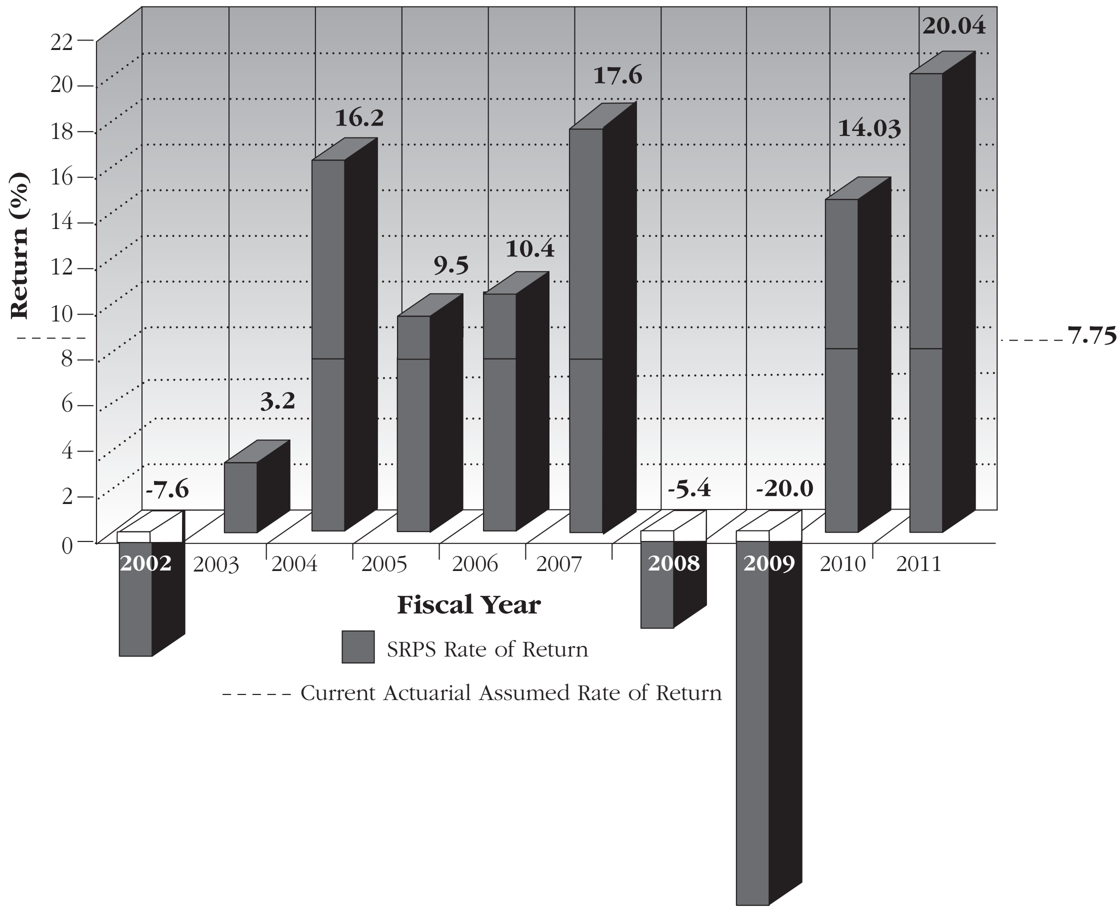




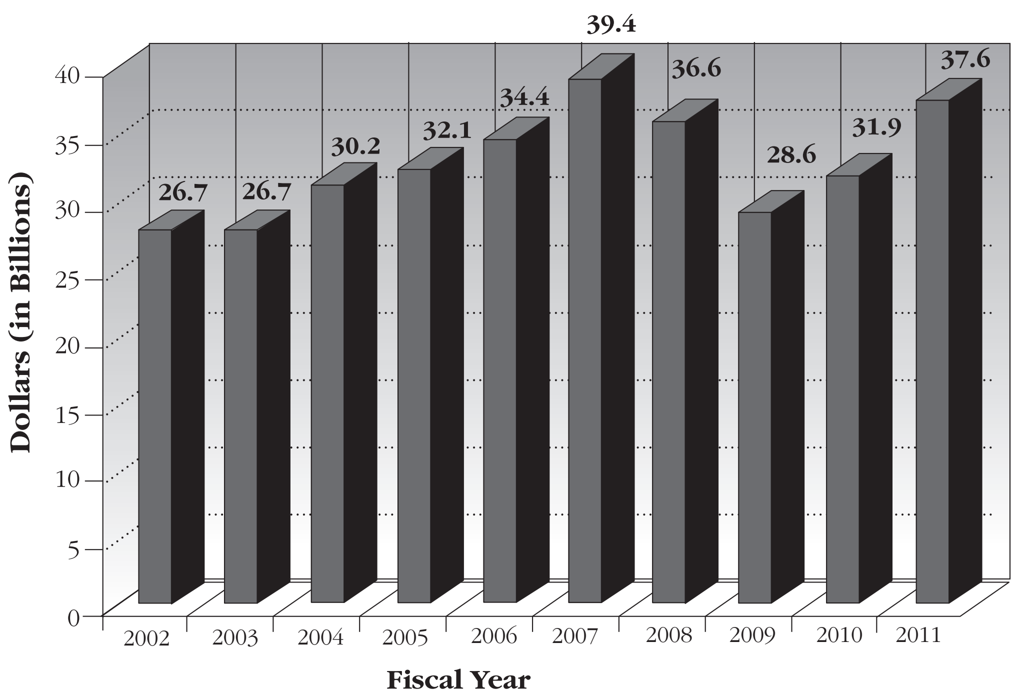
Comparative Investment Returns Ending June 30, 2011



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LARGEST STOCK & BOND HOLDINGS AT MARKET

as of June 30, 2011

EQUITY INCOME SECURITIES:	Shares	Market Value
Apple, Incorporated	433,597	$ 145,545,505
Amazon.Com Inc	509,521	104,191,949
Google, Incorporated	187,847	95,121,964
Nestle SA	1,380,685	85,677,899
JP Morgan Chase & Company	2,063,323	84,472,444
Baidu Inc. ADR	541,242	75,844,241
Exxon Mobil Corporation	914,240	74,400,851
Qualcomm Inc.	1,158,731	65,804,333
Chevron Corporation	602,434	61,954,313
BNP Paribas	766,913	59,186,865
HSBC Holdings	5,732,514	56,913,018
Basf SE	560,277	54,888,263
Pfizer Inc.	2,630,397	54,186,178
Vodafone Group PLC	19,862,403	52,711,048
Sanofi	655,641	52,700,180
Oracle Corp	1,586,629	52,215,960
Siemens AG REG	379,387	52,090,101
Microsoft Corporation	2,000,263	52,006,838
CVS Caremark Corp	1,319,576	49,589,666
Rio Tinto PLC	675,406	48,691,889

FIXED INCOME SECURITIES	Par Value	Market Value
Unites States Treasury Notes, 1.875%, due July 15, 2015	$ 82,408,608	$ 90,401,946
Unites States Treasury Bonds, 2.375%, due Jan 15, 2025	73,215,167	86,909,418
Unites States Treasury Bonds, 3.875%, due April 15,2029	58,540,292	81,084,719
Unites States Treasury Notes, 3.125%, due May 15, 2021	75,646,000	75,433,435
Unites States Treasury Bonds, 4.75%, due Feb 15, 2041	65,755,300	69,897,215
Unites States Treasury Notes, .50%, due May 31, 2013	67,250,000	67,318,510
Unites States Treasury Notes, 2.5 %, due May 31, 2018	65,848,000	65,497,429
Federal National Mortgage Assn., TBA 4.5%, due Dec 1, 2099	62,300,000	64,451,219
Federal National Mortgage Assn., TBA 4.0%, due Dec 1, 2099	64,015,000	64,015,000
Buoni Poliennali Del Tes, 2.1% Sep 15,2016	42,690,332	61,300,348
Federal National Mortgage Assn., TBA 5.0%, due Dec 1, 2099	55,010,000	58,448,125
Unites States Treasury Notes, 1.5%, due June 30, 2016	55,758,000	55,077,505
Unites States Treasury Bonds, 3.625%, due April 15, 2028	40,143,912	54,193,107
Unites States Treasury Notes, 2.0%, due Jan 15, 2016	45,236,329	53,242,984
Unites States Treasury Bonds, 2.0%, due Jan 15, 2026	47,654,970	52,114,146
Buoni Poliennali Del Tes, 2.1% Sep 15,2021	36,648,069	49,813,280
Unites States Treasury Notes, 1.875%, due July 15, 2013	44,846,953	49,433,796
Unites States Treasury Bonds, 4.375%, due May 15, 2041	45,330,000	45,261,055
Unites States Treasury Bonds, 2.125%, due Feb 15, 2041	40,693,741	44,233,269
Unites States Treasury Bonds, 2.125%, due Feb 15, 2040	40,260,490	43,844,096

A complete list of portfolio holdings is available upon request.

Actuarial Section

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November 3, 2011

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

Dear Members of the Board:

The results of the June 30, 2011, annual actuarial valuation of the Maryland State Retirement and Pension System ("MSRPS") are presented in this report.

This report was prepared at your request and is intended for use by the Maryland State Retirement Agency (SRA) and the Board of Trustees of the MSRPS and those designated or approved by the SRA or the Board. This report may be provided to other parties only in its entirety and only with the permission of the SRA or the Board.

The purposes of the valuation are as follows:

- Measure the financial position of MSRPS,
- Assist the Board in determining employer contribution rates necessary to fund the benefits provided by MSRPS, as well as establishing statutory employer contribution rates,
- Indicate trends in the financial progress of the fund,
- Provide actuarial reporting and disclosure information for the System's financial report, and
- Analyze the experience of the System over the past year.

The individual member data required for the valuations was furnished by the Maryland State Retirement Agency ("MSRA"), together with pertinent data on financial operations (unaudited). The cooperation and collaboration of MSRA staff in furnishing these materials is acknowledged with appreciation. We checked for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by MSRA.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board ("GASB"). The budgeted contribution rates for Teachers' Combined System, Employees' Combined System and State Police are not equal to the GASB No. 25 Annual Required Contribution, due to the statutorily required corridor funding method for TCS and ECS and an effective period for amortization of the unfunded liability of more than 30 years for State Police. Additional calculations are performed for these Systems to develop GASB Annual Required Contribution rates that meet the State of Maryland's reporting requirements.

Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2011 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 2002-2006 period. In addition, an assumption change for capped COLAs was adopted at the Board meeting on September 15, 2009, and first implemented in the valuations as of June 30, 2009. The General Assembly passed pension reforms which are effective July 1, 2011, and required additional changes to the COLA assumptions for current members. In addition, liabilities were adjusted to account for an expected change in factors used by the System to calculate optional forms of benefits.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The actuary did not perform an analysis of the potential range of such future measurements in this actuarial valuation report.

GRS performed an experience study of MSRPS for the period 2006-2010 after completion of the June 30, 2010, valuations. In addition, GRS conducted a Funding Methodology review of MSRPS and recommended combined changes in the asset valuation method and amortization method of amortizing unfunded liabilities and elimination of the corridor funding method. These changes are not reflected in this valuation. GRS is conducting further analysis which incorporates the impact of the pension reform passed by the General Assembly earlier this year. Certain changes require legislative action and the changes as a group may be implemented in a future valuation.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. 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. The actuarial assumptions used for the valuation produce results which, individually and in the aggregate, are reasonable.

This report should not be relied on for any purpose other than the purposes previously described.

The signing actuaries are independent of the plan sponsor.

This is one of multiple documents comprising the actuarial report. The other documents comprising the actuarial report are the PowerPoint presentation presented to the Board on September 20, 2011, and subsequent PowerPoint presentations presented in October and November.

The signing actuaries are Members of the American Academy of Actuaries (MAAA), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,

Brad L. Armstrong, ASA, EA, MAAA
Consulting Actuary

Brian B. Murphy, FSA, EA, MAAA
Consulting Actuary

Amy Williams, ASA, MAAA
Consultant

BLA:sac

BOARD SUMMARY

This report presents the results of the June 30, 2011 annual actuarial valuation of the Maryland State Retirement and Pension System (MSRPS). The purposes of the annual valuations are as follows:

- Measure the financial position of MSRPS,
- Assist the Board in establishing employer contribution rates necessary to fund the benefits provided by MSRPS,
- Indicate trends in the financial progress of the fund,
- Provide actuarial reporting and disclosure information for the System's financial report, and
- Analyze the experience of the System over the past year

A summary of the primary valuation results as of June 30, 2011 is presented on the following page..

SUMMARY OF VALUATION RESULTS
JUNE 30, 2011
($ IN MILLIONS)
(STATE AND MUNICIPAL)

	2011							2010	
	TCS	ECS	State Police	Judges	LEOPS	CORS^	Total	Total	% Change
A. Demographic Information									
1. Active Number Counts	105,528	85,453	1,295	286	2,411	86	195,059	197,786	-1.4%
2. Active Payroll	$ 6,197	$ 4,028	$ 76	$ 39	$ 135	$ 4	$ 10,479	$ 10,658	-1.7%
3. Retired Number Counts	60,565	62,569	2,371	358	1,302	6	127,171	120,247	5.8%
4. Annual Benefits for Retired Members	$ 1,525	$ 914	$ 102	$ 25	$ 41	$ 0	$ 2,607	$ 2,435	7.1%
5. Deferred / Inactive Number Counts	22,617	27,978	91	11	214	0	50,911	51,775	-1.7%
6. Total Number Counts	188,710	176,000	3,757	655	3,927	92	373,141	369,808	0.9%
B. Assets									
1. Market Value (MV)	$ 22,765	$ 12,851	$ 1,117	$ 303	$ 547	$ 10	$ 37,593	$ 31,924	17.8%
2. Rate of Return on MV							19.84 % #	14.22 %	
3. Funding Value (FV)	$ 21,869	$ 12,388	$ 1,090	$ 294	$ 527	$ 10	$ 36,178	$ 34,688	4.3%
4. Rate of Return on FV							6.09 %	3.14 %	
5. Ratio of FV to MV							96.2%	108.7%	
C. Actuarial Results									
1. Normal Cost as a % of Payroll	11.60%	10.55%	28.44%	38.31%	19.14%	12.87%	11.52%	12.20%	
2. Actuarial Accrued Liability (AAL)									
a. Active	$ 14,589	$ 8,552	$ 316	$ 160	$ 389	$ 11	$ 24,016	$ 24,185	-0.7%
b. Retired	17,774	10,452	1,430	267	595	4	30,522	28,590	6.8%
c. Deferred/Inactive	622	719	13	6	20	0	1,379	1,310	5.2%
d. Total	$ 32,985	$ 19,722	$ 1,760	$ 433	$ 1,003	$ 15	$ 55,918	$ 54,085	3.4%
3. Unfunded AAL (UAAL)	$ 11,116	$ 7,334	$ 669	$ 139	$ 476	$ 5	$ 19,740	$ 19,397	1.8%
4. Funded Ratio	66.3 %	62.8 %	62.0 %	67.8 %	52.5 %	68.8 %	64.7 %	64.1 %	
D. Contribution Rates*	STATE PORTION ONLY								
	FY 2013							FY 2012	
1. Pension Contributions									
a. Employer Normal Cost	4.62%	4.17%	20.44%	32.31%	12.35%		4.79%	7.33%	
b. Member Contribution Rate	6.98%	6.71%	8.00%	6.00%	7.00%		6.73%	4.86%	
c. UAAL Contribution Rate	13.14%	15.15%	40.77%	28.87%	34.46%		14.26%	13.47%	
d. Total	24.74%	26.03%	69.21%	67.18%	53.81%		25.78%	25.67%	
2. Total Actuarial Employer Rate (1.a + 1.c)	17.76%	19.32%	61.21%	61.18%	46.81%		19.05%	20.81%	
2a. Total Actuarial Rate (Before Reforms)	21.04%	22.19%	66.68%	61.18%	52.23%		22.22%	NA	
3. Total Employer Budgeted Rate									
a. Prior Year Budgeted Rate	15.45%	13.40%							
b. 20% * (2a. - 3a.)	1.12%	1.76%							
c. Change Due to Pension Reforms (2 - 2a.)	-3.28%	-2.87%							
d. Employer Budgeted Rate@	13.29%	12.29%	61.21%	61.18%	46.81%		13.85%	15.67%	
e. Reinvested Savings@	$ 129	$ 56	$ 3	$ 0	$ 3		$ 191		

** Contribution rates shown in the "Total" column are for informational purposes only and are not used for funding purposes.*
 # Actuarial calculation may differ from figures reported by State Street.
^ Includes CORS Municipal only. State CORS included in ECS.
@ Total contribution is 3d. + 3e.

ACTUARY'S COMMENTS

The System's assets earned **19.84%**[1] for the year ended June 30, 2011, which is more than the 7.75% assumed rate of investment return. However, after applying the asset valuation method and the phase in of prior investment experience, the net result was an actuarial loss on assets. Recognized asset losses from fiscal years 2008 and 2009 offset recognized asset gains from fiscal years 2007, 2010, and 2011 in the actuarial value of assets as of June 30, 2011, under the asset smoothing method, resulting in the loss.

The System's unfunded actuarial liability increased by **$343 million** to **$19,740 million** as of June 30, 2011. This compares to **$19,397** million of unfunded liability measured as of the June 30, 2010 valuation. The actuarial investment loss increased the unfunded actuarial liability by **$ 572 million**, offset by a non-investment liability gain of **$ 982 million.** This indicates that actual non-investment experience during the year ending June 30, 2011 was more favorable than the actuarial assumptions. Thus the total System experienced a net actuarial gain of **$410 million**. In relative terms, the overall System funding ratio of actuarial value of assets to liabilities increased from 64.14% in 2010, to **64.70%** this year. If market value of assets were the basis for the measurements, the plan would be 67.23% funded. The market value of assets exceeds the retiree liabilities by about 23% in total. This is referred to as a short condition test. It is looking at the current retiree liabilities as the benefits that will be paid the soonest since these benefits are already in pay status. Active liabilities and deferred vested liabilities do not have associated immediate cash flow requirements. Although the market value of assets exceeds the current retiree liabilities in total, this is not true for the smaller systems. For State Police and LEOPS, the market value of assets is less than the retiree liabilities.

Summary of Contribution Rates by State System ($ in Millions)

	TCS	ECS	State Police	Judges	LEOPS	CORS	Total
Market Value of Assets (MVA)	$22,765	$12,851	$ 1,117	$ 303	$ 547	$ 10	$37,593
Retiree Liability	17,774	10,452	1,430	267	595	4	30,522
MVA as % of Retiree Liability	128%	123%	78%	113%	92%	269%	123%

In the 2001 legislative session, the Legislature changed the method used to fund the two largest Systems of the MSRPS, the Teachers Combined System and the State portion of the Employees Combined System, to a corridor method. Under this funding approach, the State appropriation is fixed at the prior fiscal year's rate, but adjusted to reflect the cost of any legislative changes, as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded. Once the ratio falls outside this corridor, the appropriated or budgeted rate will be adjusted one-fifth of the way toward the underlying actuarially calculated rate, with the exception of the cost of/or the savings from legislative changes, which are fully recognized regardless of whether the Systems are within or outside of the corridor. The Teachers' Combined System (TCS) has remained out of the corridor since the June 30, 2005 valuation and the State portion of the Employees Combined System (ECS) remained out of the corridor since the June 30, 2004 valuation resulting in contribution rates for TCS and ECS that are less than actuarial rates.

In 2011, the General Assembly enacted pension reforms which are effective July 1, 2011, and affect both current actives and new hires. The member contribution rate was increased for members of the Teachers Pension System and Employees Pension System from 5% to 7%, and from 4% to 6% in fiscal year 2012 and 7% in fiscal year 2013 and beyond for LEOPS. In addition, the benefit attributable to service on or after July 1, 2011, will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.75%). There were also changes to the provisions for members hired on or after July 1, 2011. Because the current valuation was performed as of June 30, 2011, the new hire provisions did not affect this valuation.

[1] *Actuarially computed rate of return may not necessarily match the rate reported by the System's custodian.*

The changes attributable to the pension reforms were fully recognized in the corridor funding method, which reduced the contribution rate. As a result, the shortfall of the corridor funding rates compared with the actuarially determined rates for TCS and ECS increased, but not as much as it would have in the absence of the pension reforms.

On the following page is a summary by state system of the budgeted contribution rates, the actuarially determined contribution rates, and the GASB Annual Required Contribution (ARC) rates. The budgeted contribution rates use the corridor funding method for TCS and ECS.

The actuarially determined rates exclude the corridor funding method and are equal to the employer normal cost plus the unfunded actuarial accrued liability contribution rate. The unfunded actuarial contribution rate is equal to the sum of amortization payments resulting from separate unfunded liability bases amortized as a level percentage of pay. The unfunded liability base as of July 1, 2000, is being amortized over a 20-year closed period (with 9 years remaining as of July 1, 2011) plus 25-year closed period amortization of the unfunded liability that emerges in each subsequent year.

The GASB ARC rate is equal to the actuarially determined contribution rate if the single equivalent amortization period for the unfunded liability is less than or equal to 30 years. If the single equivalent amortization period is more than 30 years, which is the maximum period under GASB, then the GASB ARC is equal to the employer normal cost plus 30-year open period amortization of the unfunded liability.

The budgeted rate for TCS is about 75% (86% if with the addition of reinvested savings) of the actuarially determined rate and the GASB ARC rate, and the budgeted rate for ECS is about 64% (73% if with the addition of reinvested savings) of the actuarially determined rate and the GASB ARC rate. Although the budgeted contribution rate for State Police is equal to the actuarially determined rate, it is only about 86% of the GASB ARC (i.e., the rate which amortizes the unfunded liability over 30 years). The single equivalent amortization period for State Police is 52.1 years.

FY2012 Contribution Rates (State Portion Only)

	TCS	ECS	State Police	Judges	LEOPS	Total
Budgeted Contribution Rate	13.29%	12.9%	61.21%	61.18%	46.81%	13.85%
Actuarially Determinde Rate	17.76%	19.32%	61.21%	61.18%	46.81%	19.05%
Budgetd/Actuarially Determined Rate	74.83%	63.61%	100.00%	100.00%	100.00%	72.70%
GASB Annual Required Contribution	17.76%	19.32%	71.30%	61.18%	46.81%	19.11%
Budgeted/GASB ARC Rate	74.83%	63.61%	85.85%	100.00%	100.00%	72.46%
Budgeted Contribution Rate with Reinvested Savings	15.30%	14.05%	64.57%	61.18%	50.14%	15.80%
Budgeted with Reinvested Savings / Actuarially Determined Rate	86.17%	72.73%	105.49%	100.00%	107.11%	82.96%

1. Exludes reivested savings.

Under the present circumstances, the corridor method results in contributions that are less than those determined actuarially and those needed to make sufficient progress toward funding the current unfunded liability. We recommend a return to actuarial funding at the earliest possible time. In addition, based on the amortization payments resulting from the separate amortization bases under the current funding policy, the actuarially determined contribution for State Police is not enough to make sufficient funding progress until the July 1, 2000, base is fully amortized. We recommend that the changes recommended by the Ad Hoc Funding Methodology Committee be adopted at the earliest possible time and the contribution be set at least to the GASB Annual Required Contribution.

The results of this valuation report disclose the actuarially determined rates which will be used for purposes of disclosing the Annual Required Contribution rate under Government Accounting Standards Board Statement (GABS) No. 25 unless the equivalent amortization period for amortizing unfunded actuarial liability is greater than 30 years. We recommend that the contribution rate be set at least equal to the GASB Annual Required Contribution. The analysis in this report will focus on the actuarially determined rate but will footnote the appropriated or budgeted rate where applicable.

PRIOR YEAR EXPERIENCE

Assets (State and Municipal)

Plan assets for this System are measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method, described in detail in Appendix A, annually recognizes 20% of the difference between (a) the expected investment return if the market value of assets had earned the assumed rate of 7.75%, and (b) the actual investment return. In addition, there is a market value collar that constrains the actuarial value to be within 20% of the market value of assets. In periods of high returns, this method defers the amount of asset gains above the assumed return of 7.75%. Conversely, in periods of returns below the assumed rate, recognition of the losses is deferred. The primary advantage of this smoothing technique is contribution stability. The System does not immediately feel the full impact of lower (or higher) costs when asset values fluctuate dramatically. In the Teachers' and Employees' Systems, the impact is further reduced by the corridor method. In systems where both the corridor method and the asset collar are in effect, it can take 15 or more years to recognize a single year's gain or loss.

For the plan year ending June 30, 2011, the System's assets earned **19.84%**[1] on a market value basis and **6.09%** on a smoothed or actuarial basis. While on a market basis, the System experienced a market value investment gain of **$3,822** million, the actuarial basis experienced a loss of **$ 572** million. A reconciliation of market value and actuarial value of assets are presented below.

Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2010 Value	$31,924	$34,688
June 30, 2010 Municipal Withdrawls		
/New Entrants	–	–
Employer Contributions	1,512	1,512
Member Contributions	528	528
Benefit Payments	(2,645)	(2,645)
Expected Investment Earnings (7.75%)	2,451	2,665
Expected Value June 30, 2011	$33,771	$36,749
INVESTMENT GAIN (LOSS)	**3,822**	**(572)**
June 30, 2011 Value	$37,593	$36,178

Figures may not add correctly due to rounding

1 Actuarial calculation may differ from figures reported by State Street.

Trends (State and Municipal)

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 2011, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

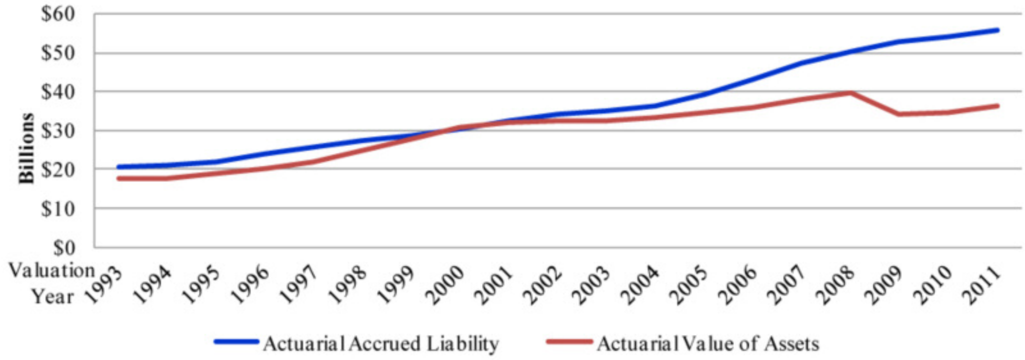


Chart B:
Benefits vs Contributions

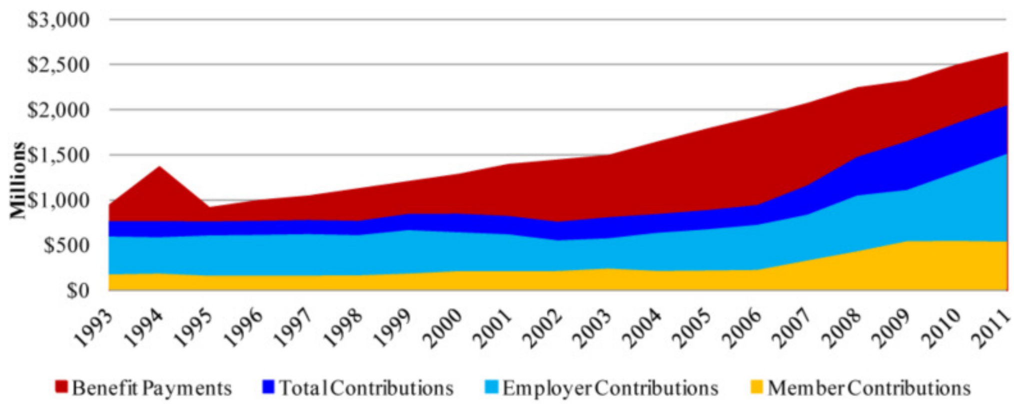
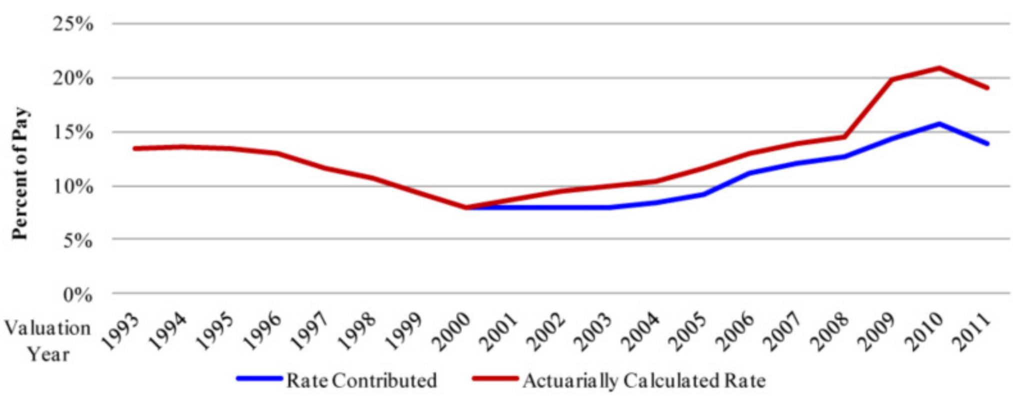


Chart C:
State Contribution Rate



Comments

Chart A displays a comparison of the actuarial value of assets and the actuarial accrued liability. As of June 30, 2011, the actuarial value of assets is about 96% of the market value of assets under the 5-year asset smoothing method, compared with 109% as of June 30, 2010. However, it could take another 10 years for the asset losses from fiscal year 2008 and 2009 to be fully reflected in the contribution rates under the current corridor funding policy in the absence of significant future gains.

Chart B presents non-investment cash flow trend information that can have investment implications. Many statewide retirement systems, with the aging and retirements of the baby boom generation, are seeing payments to retirees on the increase. This is expected for mature retirement systems. Benefit payments, which is the total amount below the red line exceeds the total contributions, which is the total amount below the dark blue line. The amount needed to pay excess benefit payments over total contributions comes from investment return or current assets. If the difference between the total benefit payments and total contributions increases, a larger portion of investment return will be needed to pay benefits and may require a change in asset allocation. As long as cash into the fund, from employer and employee contributions, is increasing in a similar manner to benefit payments, the financial objectives of the System will continue to be met. The ECS contribution rate started to be reduced in FY 2006 and the TCS contribution rate in FY 2007 under the corridor method to levels below the actuarial rate. The corridor method increased the extent of negative cash flows, which could affect the manner in which the assets are invested.

Finally, Chart C, looks at the composite actuarially determined and budgeted State contribution rates. The budgeted contribution rates by System determine the fiscal year State appropriation. It shows the impact of the 1990's decade's sustained investment gains, a continuous lowering of the rate until 2000. Effective with the 2001 valuation, the State appropriations were performed under a corridor funding method for the two largest plans. The appropriation remained essentially level for a few years before increasing with the 2004 valuation. In the absence of significant 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 2013 would be 5.20% of payroll higher than the amount to be budgeted under the corridor method. The actual contribution rate for FY 2013 is therefore 27% less than the actuarially determined rate. The actual contribution rate decreased as a result of the pension reforms enacted by the General Assembly in 2011. In addition, the decrease in the contribution rate due to the reforms was fully recognized in the corridor funding contribution rates for TCS and ECS.

Chart C further indicates that since inception, the corridor method had consistently acted to reduce the State's contribution. We recommend that action be taken to raise contributions to actuarial levels as soon as possible.

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
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
2009	2,959,415,829	28,914,824,184	20,854,931,317	52,729,171,330	34,284,568,617
2010	3,389,265,622	29,900,015,751	20,795,799,745	54,085,081,118	34,688,345,696
2011	3,732,934,034	31,901,090,890	20,283,517,888	55,917,542,812	36,177,655,993

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

Fiscal	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase	Average
Year Ended	Number	Annual Allowance	Number	Annual Allowances	Number	Annual Allowances	in Annual Allowances	Annual Allowance
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	2,176,157,700	7.73	19,357
2009	6,700	218,347,411	3,115	56,523,577	116,007	2,337,981,534	7.44	20,154
2010	6,908	147,419,991	2,668	50,510,952	120,247	2,434,890,574	4.14	20,249
2011	8,639	226,843,465	1,715	55,062,716	127,171	2,606,671,323	7.05	20,497

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%	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
100	100	11.56	65.02	18,444,602,713	10,714,167,517	172
100	100	6.73	64.14	19,396,735,421	10,657,943,561	182
100	100	2.68	64.70	19,739,886,819	10,478,799,565	188

MARYLAND STATE RETIREMENT
ACCOUNTING STATEMENT
AS OF
(STATE AND

	Teacher's Combined System	Employee's Combined System
1. Actuarial Accrued Liability		
a. Employee Contributions	$2,229,329,923	$ 1,365,660,606
b. Retirees, Term Vesteds & Inactives	18,395,814,881	11,170,473,682
c. Active Members	12,360,000,016	7,186,129,540
2. Total Actuarial Accrued Liability (1(a)+1(b)+1(c))	32,985,144,820	19,722,263,828
3. Actuarial Value of Assets	21,868,875,015	12,387,810,395
4. Unfunded Actuarial Accrued Liability (2-3)	$ 11,116,269,805	$ 7,334,453,433
5. Funded Ratio	66.3%	62.8%
6. Annual Payroll	$ 6,196,976,452	$ 4,027,809,638
7. UAAL as % of Payroll	179%	182%
8. Annual Required Contributions (ARC) STATE ONLY	17.76%	19.32%
9. Illustrated ARC contirbution Dollars STATE ONLY for FY 2013	$ 1,139,103,423	$ 614,191,171
10. Equivalent Single Amortization Period in Years - STATE ONLY for FY2013	19.781	22.034

* Contribution rates shown in the "Total" column are for informational purposes only and are not used for funding purposes.

AND PENSION SYSTEM
INFORMATION
JUNE 30, 2011
MUNICIPAL)

State Police	Judges	LEOPS	CORS	Total MSRPS*
$ 65,521,894	$ 24,887,823	$ 46,388,628	$ 1,145,161	$ 3,732,934,034
1,443,528,512	273,262,158	614,129,744	3,881,913	31,901,091,890
250,625,490	135,089,596	342,189,280	9,483,965	20,283,517,888
1,759,675,896	433,239,577	1,002,707,652	14,511,039	55,917,542,812
1,090,382,601	293,800,575	526,807,244	9,980,163	36,177,655,993
$669,293,295	$139,439,002	$475,900,408	$4,530,876	$19,739,886,819
61.9%	67.81%	52.54%	68.78%	64.70%
$75,551,283	$38,810,261	$135,176,780	$4,475,151	$10,478,799,565
886%	359%	352%	101%	188%
71.30%	61.187%	46.81%		19.11%
$56,720,677	$25,001,529	$41,418,675		$1,876,435,475
30.000	17.307	16.274		20.910

REPORT OF THE ACTUARY ON THE VALUATION OF THE TEACHERS' COMBINED SYSTEM OF THE STATE OF MARYLAND

Summary of Principal Plan Results

	June 30, 2011 (for FY2013)	June 30, 2010 (for FY2012)	% Change
1. Participant Counts			
Active Members	105,528	106,273	-0.7%
Retired Members and Beneficiaries	60,565	57,539	5.3%
Vested Former Members	22,617	23,017	-1.7%
Total	188,710	186,829	1.0%
Covered Annual Salaries of Active Members	$ 6,196,976,452	$ 6,254,647,810	-0.9%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 1,524,849,860	$ 1,440,590,046	5.8%
2. Assets and Liabilities			
Total Actuarial Liability	$32,985,144,820	$31,963,421,263	3.2%
Assets for Valuation Purposes	21,868,875,015	20,908,149,284	4.6%
Unfunded Actuarial Liability (Surplus)	$11,116,269,805	$11,055,271,979	0.6%
Funding Ratio	66.3%	65.4%	
3. Contribution Rates			
a. Employer Normal Cost Rate	4.62%	7.23%	
b. UAAL Amortization Rate	13.14%	12.68%	
c. Total Actuarial Employer Contribution Rate	17.76%	19.91%	
d. Total Actuarial Employer Contribution Rate(Before Reforms)	21.04%	19.91%	
4. Corridor Contribution Rates			
a. Prior Year Corridor Rate	15.45%	14.34%	
b. 20% of difference between 3a and 4a	1.12%	1.11%	
c. Change Due to pension reforms (3c - 3d)	-3.28%	N/A	
d. Final Employer Corridor Contribution Rate	13.29%	15.45%	
e. Estimated Employer Rate after Reinvestment of Savings	15.30%		

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

Summary of Principal Plan Results

	June 30, 2011 (for FY2013)	June 30, 2010 (for FY2012)	% Change
1. Participant Counts			
Active Members	85,453	87,325	-2.1%
Retired Members and Beneficiaries	62,569	58,893	6.2%
Vested Former Members	27,978	28,477	-1.8%
Total	176,000	174,695	0.7%
Covered Annual Salaries of Active Members	$ 4,027,809,638	$ 4,137,473,794	-2.7%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 913,836,657	$ 838,069,808	9.0%
2. Assets and Liabilities			
Total Actuarial Liability	$19,722,263,828	$19,009,787,645	3.7%
Assets for Valuation Purposes	12,387,810,395	11,937,943,927	3.8%
Unfunded Actuarial Liability (Surplus)	$ 7,334,453,433	$ 7,071,843,718	3.7%
Funding Ratio	62.8%	62.8%	
3. Contribution Rates			
a. Employer Normal Cost Rate	4.17%	6.47%	
b. UAAL Amortization Rate	15.15%	13.78%	
c. Total Actuarial Employer Contribution Rate	19.32%	20.25%	
d. Total Actuarial Employer Contribution Rate(Before Reforms)	22.19%	20.25%	
4. Corridor Contribution Rates			
a. Prior Year Corridor Rate	13.40%	11.69%	
b. 20% of difference between 3a and 4a	1.76%	1.71%	
c. Change Due to pension reforms (3c - 3d)	-2.87%	N/A	
d. Final Employer Corridor Contribution Rate	12.29%	13.40%	
e. Estimated Employer Rate after Reinvesment of Savings	14.05%		

REPORT OF THE ACTUARY ON THE VALUATION OF THE STATE POLICE RETIREMENT SYSTEM OF THE STATE OF MARYLAND

Summary of Principal Plan Results

	June 30, 2011 (for FY2013)	June 30, 2010 (for FY2012)	% Change
1. Participant Counts			
Active Members	1,295	1,354	-4.4%
Retired Members and Beneficiaries	2,371	2,282	3.9%
Vested Former Members	91	77	18.2%
Total	3,757	3,713	1.2%
Covered Annual Salaries of Active Members	$ 75,551,283	$ 81,705,369	-7.5%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 102,466,376	$ 96,321,179	6.4%
2. Assets and Liabilities			
Total Actuarial Liability	$1,759,675,896	$1,722,563,819	2.2%
Assets for Valuation Purposes	1,090,382,601	1,085,281,042	0.5%
Unfunded Actuarial Liability (Surplus)	$ 669,293,295	$ 637,282,777	5.0%
Funding Ratio	62.0%	63.0%	
3. Contribution Rates			
Employer Normal Cost Rate	20.44%	25.48%	
UAAL Amortization Rate	40.77%	35.53%	
Total Actuarial Employer Contribution Rate	61.21%	61.01%	
Estimated Employer Rate after Reinvesment of Savings	64.57%		

REPORT OF THE ACTUARY ON THE VALUATION OF THE PENSION PLAN OF JUDGES AND THEIR SURVIVING SPOUSES

Summary of Principal Plan Results

	June 30, 2011 (for FY2013)	June 30, 2010 (for FY2012)	% Change
1. Participant Data			
Active Members	286	294	-2.7%
Retired Members and Beneficiaries	358	351	2.0%
Vested Former Members	11	6	83.3%
Total	655	651	0.6%
Covered Annual Salaries of Active Members	$38,810,261	$39,960,883	-2.9%
Annual Retirement Allowances for Retired Members and Beneficiaries	$24,597,570	$23,868,484	3.1%
2. Assets and Liabilities			
Total Actuarial Liability	$433,239,577	$426,214,605	1.6%
Assets for Valuation Purposes	293,800,575	276,642,958	6.2%
Unfunded Actuarial Liability (Surplus)	$139,439,002	$149,571,647	-6.8%
Funding Ratio	67.8%	64.9%	
3. Contribution Rates			
Employer Normal Cost Rate	32.31%	31.79%	
UAAL Amortization Rate	28.87%	28.58%	
Total Actuarial Employer Contribution Rate	61.18%	60.37%	
Estimated Employer Rate after Reinvestment of Savings	61.18%		

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

Summary of Principal Plan Results

	June 30, 2011 (for FY2013)	June 30, 2010 (for FY2012)	% Change
1. Participant Data			
Active Members	2,411	2,474	-2.5%
Retired Members and Beneficiaries	1,302	1,182	10.2%
Vested Former Members	214	198	8.1%
Total	3,927	3,854	1.9%
Covered Annual Salaries of Active Members	$135,176,780	$140,199,243	-3.6%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 40,920,859	$ 36,041,057	13.5%
2. Assets and Liabilities			
Total Actuarial Liability	$1,002,707,652	$950,235,885	5.5%
Assets for Valuation Purposes	526,807,244	471,727,901	11.7%
Unfunded Actuarial Liability (Surplus)	$475,900,408	$478,507,984	-0.5%
Funding Ratio	52.5%	49.6%	
3. Contribution Rates			
Employer Normal Cost Rate	12.35%	17.30%	
UAAL Amortization Rate	34.46%	31.96%	
Total Actuarial Employer Contribution Rate	46.81%	49.26%	
Estimated Employer Rate after Reinvestment of Savings	50.14%		

REPORT OF THE ACTUARY ON THE VALUATION OF THE CORRECTIONAL OFFICERS' RETIREMENT SYSTEM OF THE STATE OF MARYLAND (MUNICIPAL)

Summary of Principal Plan Results

	June 30, 2011 (for FY2013)	June 30, 2010 (for FY2012)	% Change
1. Participant Data			
Active Members	86	66	30.3%
Retired Members and Beneficiaries	6	0	N/A
Vested Former Members	0	0	N/A
Total	92	66	39.4%
Covered Annual Salaries of Active Members	$ 4,475,151	$ 3,956,462	13.11%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 252,141	$ 0	N/A
2. Assets and Liabilities			
Total Actuarial Liability	$14,511,039	$12,857,901	12.86%
Assets for Valuation Purposes	9,980,163	8,600,585	16.04%
Unfunded Actuarial Liability (Surplus)	$ 4,530,876	$ 4,257,316	6.43%
Funding Ratio	68.8%	66.9%	
3. Contribution Rates			
Employer Normal Cost Rate	7.87%	9.23%	
UAAL Amortization Rate	0.09%	-0.36%	
Total Actuarial Employer Contribution Rate	7.96%	8.87%	

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
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
2009	3,554	306,096,545	86,127	0.66
2010	3,111	269,775,400	86,717	0.68
2011	2,589	225,118,122	86,952	0.27

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2009	102,553	5,888,637,495	57,420	1.44
2010	103,162	5,984,872,410	58,014	1.03
2011	102,939	5,971,858,330	58,014	0.00

Employees' Retirement

(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2009	9,962	483,871,203	48,572	0.06
2010	9,665	463,375,639	47,944	-1.29
2011	9,189	432,469,190	47,064	-1.84

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
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
2009	79,418	3,765,664,905	47,416	2.05
2010	77,660	3,674,098,155	47,310	-0.22
2011	76,264	3,595,340,448	47,143	-0.35

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2009	297	40,266,330	135,577	2.19
2010	294	39,960,883	135,921	0.25
2011	286	38,810,261	135,700	-0.16

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2009	1,408	85,585,708	60,785	0.25
2010	1,354	81,705,369	59,946	0.71
2011	1,295	75,551,283	58,341	-3.32

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Law Enforcement Officers' Pension
(STATE AND MUNICIPAL)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2009	2,445	140,071,292	57,289	-0.10
2010	2,474	140,199,243	56,669	-1.08
2011	2,411	135,176,780	56,067	-1.06

Correctional Officers' Retirement System
(MUNICIPAL)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2009	68	$ 4,047,633	$ 59,524	NA
2010	66	3,956,462	59,946	0.71 %
2011	86	4,475,151	52,037	-13.19

Statistical Section

The Maryland State Retirement and Pension System (MSRPS) has implemented 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 95 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 96 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,

(Expressed in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Employer contributions	$ 581,371	$ 606,900	$ 632,052	$ 670,554	$ 720,876	$ 833,782	$ 1,047,963	$ 1,109,563	$1,308,921	$1,512,472
Members contributions	199,304	207,584	204,158	208,997	215,077	319,274	420,461	532,100	535,581	528.028
Net Investment income	(2,265,315)	756,747	4,202,632	2,766,389	3,225,649	5,924,070	(2,139,662)	(7,355,906)	4,016,359	6,273,337
Total Additions	(1,484,640)	$1,571,231	5,038,842	3,645,940	4,161,602	7,077,126	(671,238)	(5,714,243)	5,860,861	8,313,837
Deductions										
Benefit payments	1,372,325	1,474,257	1,570,622	1,697,397	1,829,468	1,965,872	2,120,463	2,279,170	2,445,540	2,580,392
Refunds	17,476	16,310	11,942	19,162	16,455	16,021	16,223	22,325	33,531	33,369
Administrative expenses	20,064	21,352	17,376	22,386	18,579	21,271	23,147	27,499	28,627	30,961
Total Deductions	1,409,865	1,511,919	1,599,940	1,738,945	1,864,502	2,003,164	2,159,833	2,328,994	2,507,698	2,644,722
Changes in net	$(2,894,505)	$ 59,312	$3,438,902	$1,906,995	$2,297,100	$5,073,962	$(2,831,071)	$(8,043,237)	$ 3,353,162	5,669,115

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
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
2009	1,907,483	94,654	18,133	95,933	148,098	14,845	–	2,279,146
2010	2,045,795	100,953	18,857	102,032	161,836	16,068	–	2,445,540
2011	2,164,368	104,884	18,758	105,493	170,267	16,623	_	2,580,392

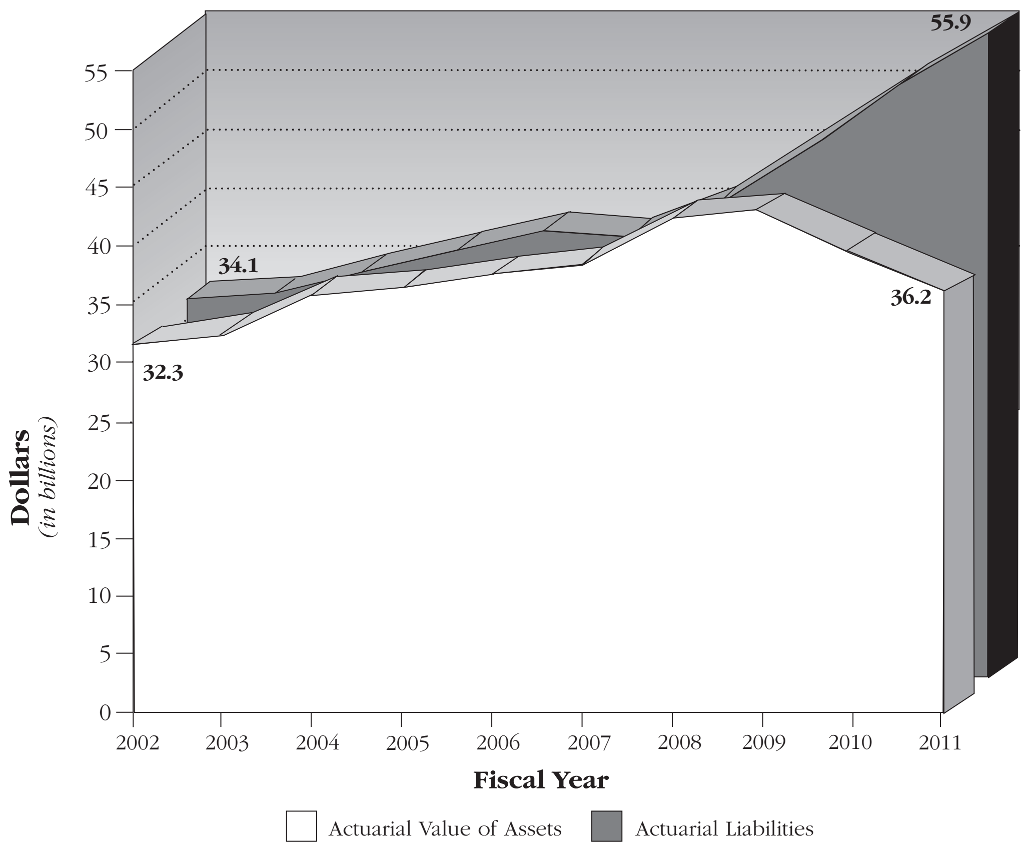
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

Average Benefit Payments – *Last Ten Years*

Years Credited Service

	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/2001 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 6/30/2007							
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	$ 3,202	$ 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	$ 2,811	$ 3,172	$ 3,825	$ 4,510	$ 4,617	$ 5,478	$ 5,224
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2008 to 6/30/2009							
Average monthly benefit	$ 534	$ 577	$ 868	$ 1,232	$ 1,657	$ 1,973	$ 2,925
Monthly final average salary	$ 2,604	$ 3,273	$ 3,638	$ 4,222	$ 4,781	$ 4,924	$ 5,679
Number of retired members	191	751	625	757	872	678	2,171
Period 7/1/2009 to 6/30/2010							
Average monthly benefit	$ 505	$ 542	$ 838	$ 1,246	$ 1,670	$ 1,971	$ 2,933
Monthly final average salary	$ 2,902	$ 3,425	$ 3,636	$ 4,392	$ 4,814	$ 5,097	$ 5,811
Number of retired members	271	834	662	690	873	698	2,266
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	$ 435	$ 541	$ 851	$ 1,211	$ 1,800	$ 2,161	$ 3,100
Monthly final average salary	$ 2,884	$ 3,373	$ 3,734	$ 4,309	$ 4,984	$ 5,395	$ 5,970
Number of retired members	306	951	901	950	1,164	900	2,856

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF EMPLOYER CONTRIBUTION RATES BY PLAN

	State						Participating Governmental Units (PGU)				
Fiscal Year	Combined State Rate	Teachers' Combined Rate	Employees' Combined Rate	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Combined PGU Rate	Law Enforcement Officers' Pension	Employees' Retirement	Employees' Pension	Correctional Officers' Retirement
2002	7.98%	9.35%	4.73%	42.66%	5.83%	32.41%	1.94%	31.83%	6.75%	1.75%	– %
2003	8.01	9.35	4.73	43.92	5.78	36.10	1.95	29.59	6.95	1.95	–
2004	8.06	9.35	4.73	43.74	7.58	35.13	2.87	30.21	7.59	2.59	–
2005	7.97	9.35	4.73	36.72	–	37.73	5.28	32.10	9.87	4.87	–
2006	8.46	9.35	5.76	41.12	8.22	38.47	5.36	32.67	9.80	4.80	–
2007	9.18	9.71	6.83	42.43	13.83	40.60	N/A	33.18	10.68	5.68	–
2008	11.10	11.60	8.86	44.12	15.44	41.74	N/A	36.80	10.27	5.27	–
2009	11.14	11.70	8.73	43.61	20.53	36.99	N/A	30.53	8.87	3.87	-
2010	12.62	13.15	9.93	49.89	30.79	38.63	N/A	30.03	9.05	4.05	8.41
2011	14.33	14.34	11.69	59.07	57.03	47.67	N/A	32.74	12.30	7.30	9.69

SCHEDULE OF RETIRED MEMBERS BY TYPE

as of June 30, 2011

Amount of Monthly Benefit	Number of Retirees	Type of Retirement						
		NR(4)	ER(3)	SP	SPD	ADR	ODR	SPDR
1 - 300	15,591	12,611	1,207	916	21	15	541	280
301 - 600	15,059	9,538	2,501	1,035	73	38	1,449	425
601 - 900	13,075	7,585	2,202	962	100	75	1,867	284
901 - 1,200	11,666	7,111	1,810	771	90	171	1,517	196
1,201 - 1,500	11,161	7,087	1,459	695	93	343	1,326	158
1,501 - 1,800	9,565	6,247	1,229	483	71	394	1,062	79
1,801 - 2,100	8,587	5,788	1,091	389	63	410	791	55
2,101 - 2,400	7,847	5,500	922	318	77	380	614	36
2,401 - 2,700	6,709	4,853	746	235	67	349	442	17
2,701 - 3,000	6,039	4,592	583	196	69	264	318	17
Over 3000	21,872	18,654	926	575	121	992	571	33
	127,171	89,566	14,676	6,575	845	3,431	10,498	1,580

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(3)	**Opt. 1(1)**	**Opt. 2**	**Opt. 3(2)**	**Opt. 4(1)**	**Opt. 5**	**Opt. 6**	**Opt. AO**
7,502	3,456	1,832	965	856	535	430	15
6,228	2,905	1,782	1,564	1,305	486	774	15
5,020	2,111	1,573	1,581	1,546	388	846	10
4,246	1,698	1,521	1,477	1,472	397	850	5
3,613	1,623	1,743	1,480	1,409	509	779	5
3,041	1,376	1,521	1,233	1,249	451	686	8
2,721	1,212	1,377	1,154	1,145	334	638	6
2,537	1,058	1,204	1,047	1,109	284	605	3
2,378	844	997	821	996	210	458	5
2,112	692	977	749	878	227	399	5
9,018	2,078	2,601	2,895	3,494	475	1,280	31
48,416	19,053	17,128	14,966	15,459	4,296	7,745	108

Option Selected:

Basic – The standard benefit if no option is selected. Generally, at retiree's death, all payments cease. However, the basic allowance for the State Police, Law Enforcement Offices (LEOPS), Judges and Legislators provides a continuing benefit for spouses or children under 18.

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 basic.

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 basic.

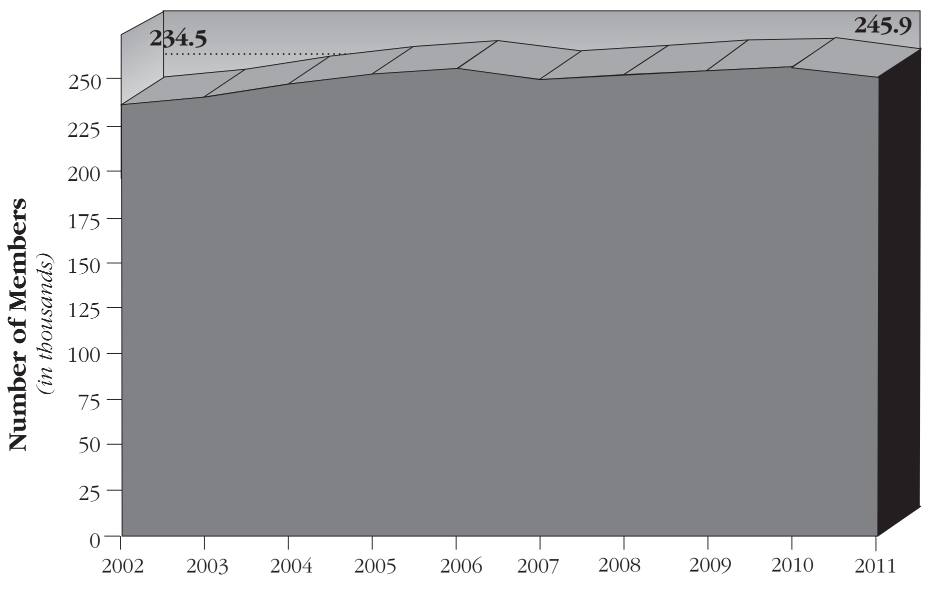
Opt. 7 – Special option calculation performed by actuary.

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

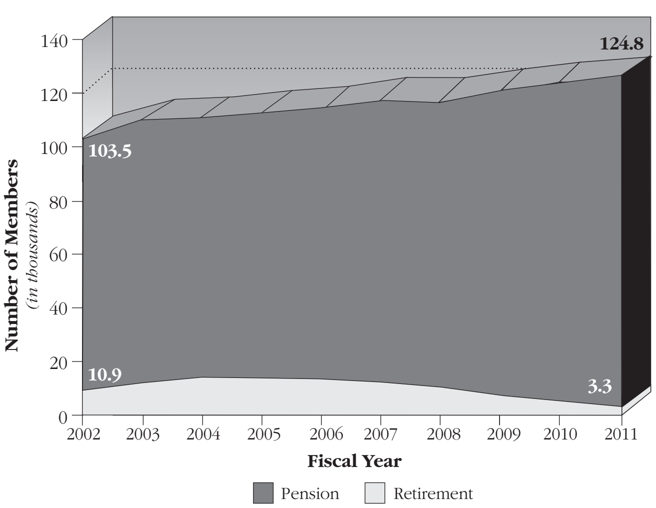
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Correctional Officers' Retirement
2002	234,478	10,913	103,483	13,053	103,429	291	1,616	1,476	–
2003	235,594	9,776	106,383	12,696	103,151	300	1,583	1,543	–
2004	232,772	8,675	107,092	11,800	101,581	297	1,498	1,756	–
2005	235,714	7,606	110,327	11,160	102,845	297	1,486	1,930	–
2006	240,583	6,678	114,693	11,398	103,784	310	1,499	2,178	–
2007	248,289	5,963	120,333	11,240	106,566	310	1,470	2,344	–
2008	251,050	5,217	123,562	10,906	107,021	294	1,487	2,501	–
2009	251,571	4,550	124,552	11,027	106,961	365	1,414	2,634	68
2010	249,561	4,012	125,278	10,664	105,138	300	1,431	2,672	66
2011	245,970	3,339	124,806	10,139	103,292	297	1,386	2,625	86

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

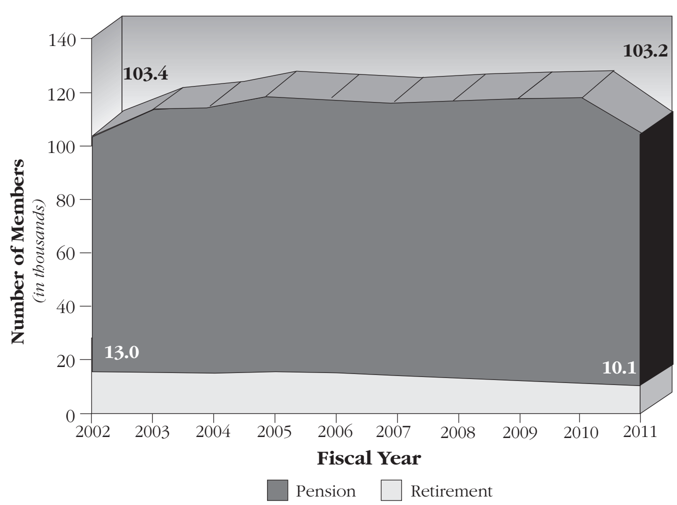
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

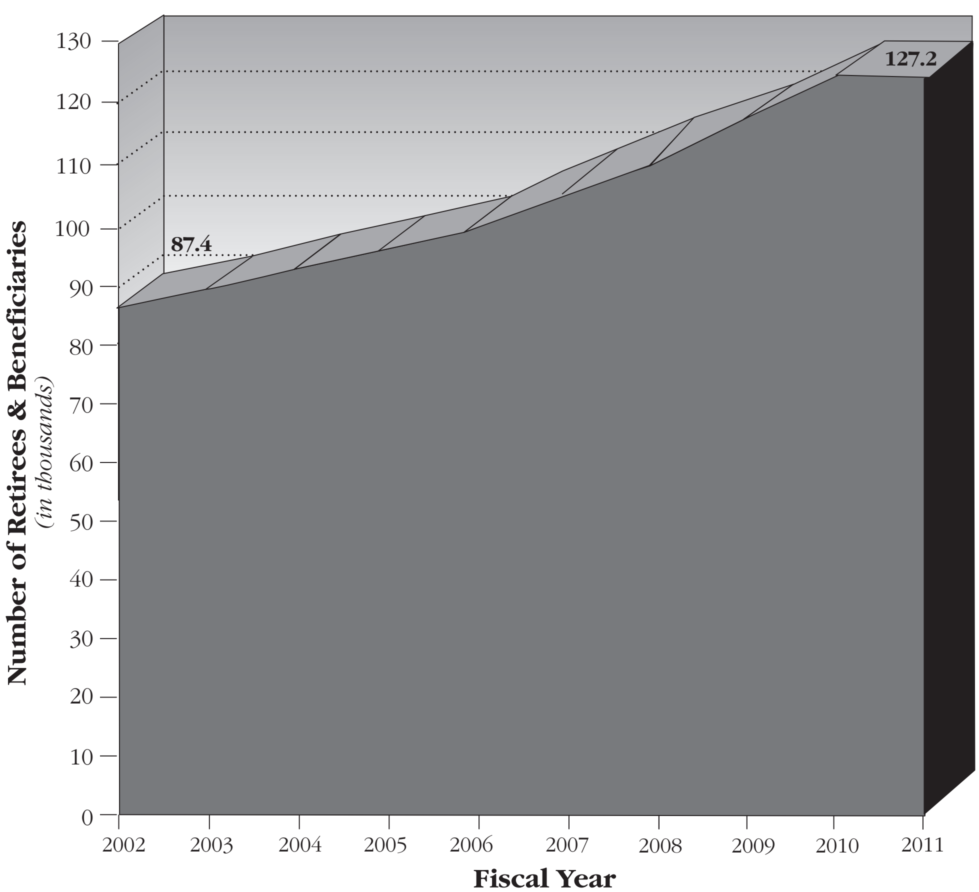


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Correctional Officers' Retirement System
2002	87,367	29,989	11,931	24,904	18,205	311	1,598	403	
2003	90,803	30,305	13,370	24,662	19,929	306	1,695	503	
2004	94,880	30,598	15,093	24,559	21,913	309	1,790	581	
2005	100,196	30,921	17,170	24,633	24,525	316	1,909	708	
2006	103.831	31,138	19,144	24,271	26,216	330	1,937	782	
2007	108,355	31,023	21,016	24,408	28,631	335	2,063	863	
2008	112,422	30,955	23,030	24,197	30,723	342	2,149	958	
2009	116,007	30,598	25,158	23,778	32,832	348	2,226	1,067	
2010	120,247	30,270	27,269	23,475	35,418	351	2,282	1,182	
2011	127,171	30,012	30,553	23,230	39,339	358	2,371	1,302	6

* 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)

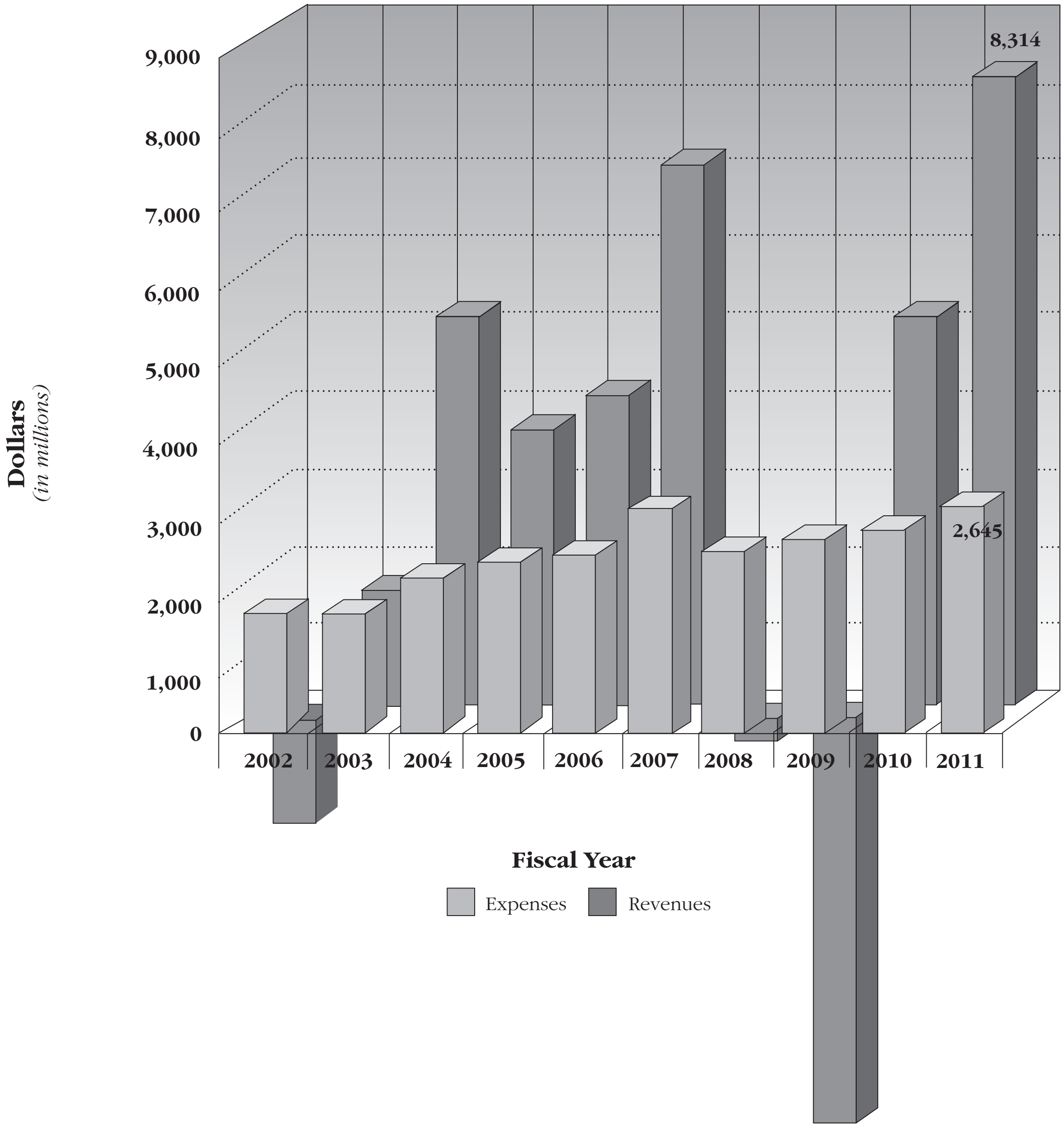
REVENUES

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
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)
2009	532,100	1,109,563	10,714,167	10.36	(7,355,906)	(5,714,243)
2010	535,581	1,308,921	10,657,944	12.28	4,016,359	5,860,861
2011	528,028	1,512,472	10,478,800	14.43	6,273,337	8,313,837

EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
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
2009	2,279,170	27,499	22,325	2,328,994
2010	2,445,540	28,627	33,531	2,507,698
2011	2,580,392	30,961	33,369	2,644,722

TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2011			2002		
	Covered Employees	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Participating Government						
State of Maryland	326,681	1	88%	283,224	1	88%
All other (Participating Municipalities)	46,460	2	12%	38,621	2	12%
Total System	373,141			321,845		

Governmental Units Participating in the Systems

as of June 30, 2011

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
Berwyn Heights, 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 (WMHPA)
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 (WMHPA)
Garrett County Commission (WMHPA)
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(WMHPA)
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

	2011	2010
Total Membership		
Active Vested	2,589	3,111
Active Non-vested	–	–
Vested Former Members	750	901
Retired Members	30,012	30,271
Active Members		
Number	2,589	3,111
Average Age	61.3	60.5
Average Years of Service	35.8	35.0
Average Annual Salary	$ 86,952	$ 86,717
Retirees & Beneficiaries		
Number	30,012	30,271
Average Age	74.6	74.3
Average Monthly Benefit	$ 2,694	$ 2,630

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. The employee contribution for Section C, Part 2 is 5%.

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(CPI). 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%.

In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

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.

Teachers' Pension System

A COMPOSITE PICTURE

	2011	2010
Total Membership		
Active Vested	78,620	75,194
Active Non-vested	24,319	27,968
Vested Former Members	21,867	22,116
Retired Members	30,553	27,268
Active Members		
Number	102,939	103,162
Average Age	44.8	44.6
Average Years of Service	11.4	11.5
Average Annual Salary	$ 58,014	$ 58,014
Retirees & Beneficiaries		
Number	30,553	27,268
Average Age	68.0	67.7
Average Monthly Benefit	$ 1,513	$ 1,483

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 5% of earnable compensation during FY2010.

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, 2011 current members' contribution increases to 7%, and cost of living adjustments on benefits earned on and after July 1, 2011 are capped at 2.5% in years when the System's interest assumption is met and 1.0% in years when it is not.

For new members enrolled on and after July 1, 2011, the employee contribution will be 7%; vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

Employees' Retirement System

A COMPOSITE PICTURE

	2011	2010
Total Membership		
Active Vested	6,066	6,243
Active Non-vested	3,123	3,422
Vested Former Members	950	999
Retired Members	23,230	23,475
Active Members		
Number	9,189	9,665
Average Age	43.7	43.9
Average Years of Service	13.2	13.6
Average Annual Salary	$ 47,064	$ 47,944
Retirees & Beneficiaries		
Number	23,230	23,475
Average Age	72.8	72.8
Average Monthly Benefit	$ 1,615	$ 1,557

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). The employee contribution for Section C, Part 2 is 5%.

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 (CORS Only)

For new members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service, and average final compensation will be a five year average. For all members, the cost of living adjustments on benefit earned from July 1, 2011 will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

Employees' Pension System

A COMPOSITE PICTURE

	2011	2010
Total Membership		
Active Vested	57,039	56,680
Active Non-vested	19,225	20,980
Vested Former Members	27,028	27,478
Retired Members	39,339	35,418
Active Members		
Number	76,264	77,660
Average Age	48.3	48.1
Average Years of Service	12.2	12.8
Average Annual Salary	$ 47,143	$ 47,310
Retirees & Beneficiaries		
Number	39,339	35,418
Average Age	67.6	67.5
Average Monthly Benefit	$ 982	$ 940

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 5% of earnable compensation.

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.

Pension Changes

Effective July 1, 2011 current members' contribution increases to 7%, and cost of living adjustments on benefit earned on and after July 1, 2011 are capped at 2.5% in years when the System's interest assumption is met and 1.0% in years when it is not.

For new members enrolled on and after July 1, 2011, the employee contribution will be 7%; vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

For new members of those employers that remain in either the NCPS or ECPS enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; and, average final compensation will be a five year average. For all members, the cost of living adjustments on benefit earned from July 1, 2011 will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

Judges' Retirement System

A COMPOSITE PICTURE

	2011	2010
Total Membership		
Active Vested	286	294
Active Non-vested	–	–
Vested Former Members	11	6
Retired Members	358	351
Active Members		
Number	286	294
Average Age	57.9	57.7
Average Years of Service	9.5	9.6
Average Annual Salary	$ 135,700	135,921
Retirees & Beneficiaries		
Number	358	351
Average Age	76.2	75.9
Average Monthly Benefit	$ 5,726	5,667

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

	2011	2010
Total Membership		
Active Vested	947	991
Active Non-vested	348	363
Vested Former Members	91	77
Retired Members	2,371	2,282
Active Members		
Number	1,295	1,354
Average Age	35.0	35.4
Average Years of Service	10.5	11.0
Average Annual Salary	$ 58,341$	$ 60,344
Retirees & Beneficiaries		
Number	2,371	2,282
Average Age	60.3	60.0
Average Monthly Benefit	$ 3,601	$ 3,517

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.

Pension Changes

For new members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 50 or 25 years of eligibility service; average final compensation will be a five year average. For all members, the cost of living adjustments on benefit earned from July 1, 2011 will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not. For all DROP accounts opened on and after July 1, 2011, the interest rate will be 4% compounded annually.

Law Enforcement Officers' Pension System

A COMPOSITE PICTURE

	2011	2010
Total Membership		
Active Vested	1,771	1,774
Active Non-vested	640	700
Vested Former Members	214	198
Retired Members	1,302	1,182
Active Members		
Number	2,411	2,474
Average Age	40.4	40.1
Average Years of Service	10.6	10.9
Average Annual Salary	$ 56,067	$ 56,669
Retirees & Beneficiaries		
Number	1,302	1,182
Average Age	57.3	57.0
Average Monthly Benefit	$ 2,619	$ 2,541

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.

Pension Chnages

For new members enrolled on and after July 1, 2011, employee contribution increases to 6%; vesting will require ten years of eligibility service; average final compensation will be a five year average. For all members, the cost of living adjustments on benefit earned from July 1, 2011 will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not. For all DROP accounts opened on and after July 1, 2011, the interest rate will be 4% compounded annually.