Montgomery County
Employee Retirement Plans

Comprehensive Annual Financial Report

Employees' Retirement System
Retirement Savings Plan
Deferred Compensation Plan

(*Trust Funds of Montgomery County, Maryland*)

Fiscal Year 2008
July 1, 2007 – June 30, 2008

Prepared by the Board of Investment Trustees
101 Monroe Street, 15th Floor
Rockville, Maryland 20850

MONTGOMERY COUNTY

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MARYLAND

MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2008
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INTRODUCTION SECTION

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

December 1, 2008

Honorable County Executive and
Members of the Montgomery County Council

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Montgomery County, Maryland (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2008. This annual report is designed to assist you in understanding the structure and current status of the Plans.

FORMAL TRANSMITTAL OF THE CAFR

This report was prepared pursuant to the provisions of Section 33-51(b) of the Montgomery County Code, 2004, as amended (Code), and includes the independent auditors' report, issued by the County Council's appointed independent public accounting firm. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the plan net assets and the changes in plan net assets and financial position of the Plans; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Plans have been included.

PROFILE OF THE RETIREMENT PLANS

History

The System was established in 1965, as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of the County and other agencies or political subdivisions who elect to participate. Participating agencies and subdivisions include the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. There were 5,060 active members and 5,306 retirees participating in the System as of June 30, 2008.

The Retirement Savings Plan (RSP) was established in 1994, as a cost-sharing multiple-employer defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Employees covered by the System may make an irrevocable decision to transfer to the RSP. At June 30, 2008, there were 4,746 active plan members.

The Deferred Compensation Plan (DCP) was established pursuant to Section 457 of the Internal Revenue Code, as amended. During Fiscal Year (FY) 1999, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries.

Benefit Provisions

The benefit provisions of the System are established by the Code. The System provides for normal service retirement and early service retirement benefits for members who attain age and service requirements. The System also provides options for disability and death benefits to eligible participants. Members are vested after five years of service.

The RSP provides for immediate vesting of employee contributions and employer contributions are vested after three years of service or upon death, disability or reaching retirement age.

Major Initiatives

During FY 2008, the Board of Investment Trustees (Board) continued implementation of the revised strategic asset allocation for the ERS approved in 2007, which will result in further diversification of the investment portfolio through the addition of new investment strategies and better management of the total portfolio's risk. Toward this effort, the Board approved new strategies, such as long-duration fixed income and long-short extension equities, and selected new managers in existing strategies, including private equity and real estate. The Board also hired a consultant to assist with implementation of the Sudan Divestment legislation enacted by the Montgomery County Council during the fiscal year. Other FY 2008 Board initiatives included the establishment of a Compliance and Audit Committee and creation of the Statement of Professional and Ethical Code. The ERS financial statements were made to comply with GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, which provides additional disclosure relating to the ERS' funded status.

In addition, the Board negotiated lower fees for participants in five of the DCP funds offered and expanded the investment counseling opportunities available to participants in the RSP.

During FY 2008, the County's implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, led to the creation of the Retiree Health Benefits Trust (RHBT). The Board is responsible for overseeing the investment program for the RHBT. Information on the RHBT is available in Montgomery County's Comprehensive Annual Financial Report.

INFORMATION USEFUL IN ASSESSING THE RETIREMENT PLANS' ECONOMIC CONDITION

Financial Information

Accounting System and Reports

The Plans' financial statements have been prepared under the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A), which can be found on pages 15 to 19 of this report, provides a brief analysis of the financial performance of the Plans and an introduction to the financial statements of the Plans for the year ended June 30, 2008.

Investments

Montgomery County has established a Board to be responsible for the investment management of the Plans' assets for the exclusive benefit of the members and participants. The Board consists of thirteen members appointed by the County Council.

In overseeing the management of the assets of the Plans, the Board has developed sound and prudent investment policies. The Board believes an appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the defined benefit plan. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. To achieve this objective, System assets are allocated to a broad array of investment sectors as follows: domestic equities 35.0 percent, private equity 5.5 percent, international equities 20.1 percent, domestic fixed income 25.0 percent, inflation index bonds 11.6 percent, and real estate 2.8 percent. For the twelve months ended June 30, 2008, the total return achieved by the System's investments was a loss of 2.26 percent, compared to the loss recorded by the System's benchmark index of 5.08 percent and the actuarial assumed rate of return of 8.0 percent.

Section 33-125 of the Montgomery County Code authorizes the Board to establish, for members of the RSP, a diversified slate of mutual and commingled investment funds from which participants may select options. The Board has developed an investment policy outlining its oversight of the investment products offered.

The Board has also established a diversified slate of mutual and commingled funds for the County Plan which offers a range of options from which participants may select. The Board has constructed an investment policy stipulating investment objectives and oversight by the Board.

Funding

The System's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the June 30, 2008 valuation, the actuarial value of assets was $2.7 billion. The aggregate actuarial liability was $3.3 billion. The Schedule of Funding Progress included as Required Supplementary Information in the Financial Section, expresses the System's actuarial value of assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status on a going-concern basis. The actuary has determined that the present net asset base, expected future contributions and investment earnings thereon, are sufficient to provide for full payment of future benefits under the projected unit credit actuarial cost method.

Internal Control Structure and Budgetary Controls

The Plans' management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2008 adequately safeguard the Plans' assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the Board, in conjunction with the Chief Administrative Officer, approves and actively monitors the annual budgets for each plan.

Independent Audit and Actuarial Certification

An independent auditors' report and actuarial certification are included in this report.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its comprehensive annual financial report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a 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. The Montgomery County Employee Retirement Plans have received the Certificate of Achievement for the last seven consecutive years. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgements

The Plans' CAFR was prepared by the Board of Investment Trustees staff in conjunction with staff support from the County's Department of Finance and Office of Human Resources. I would like to express my appreciation to the employees who have worked hard throughout the year to ensure the successful operation of the Plans.

Respectfully submitted,

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Joseph Adler
Director – Office of
Human Resources

Jennifer E. Barrett
Director of Finance

Linda A. Herman
Executive Director
Board of Investment Trustees

Professional Services

Actuary

Mercer Human Resource
Consulting
Washington, DC

Investment Consultant

Wilshire Associates
Pittsburgh, PA

Auditor

Clifton Gunderson LLP
Certified Public Accountants
Baltimore, MD

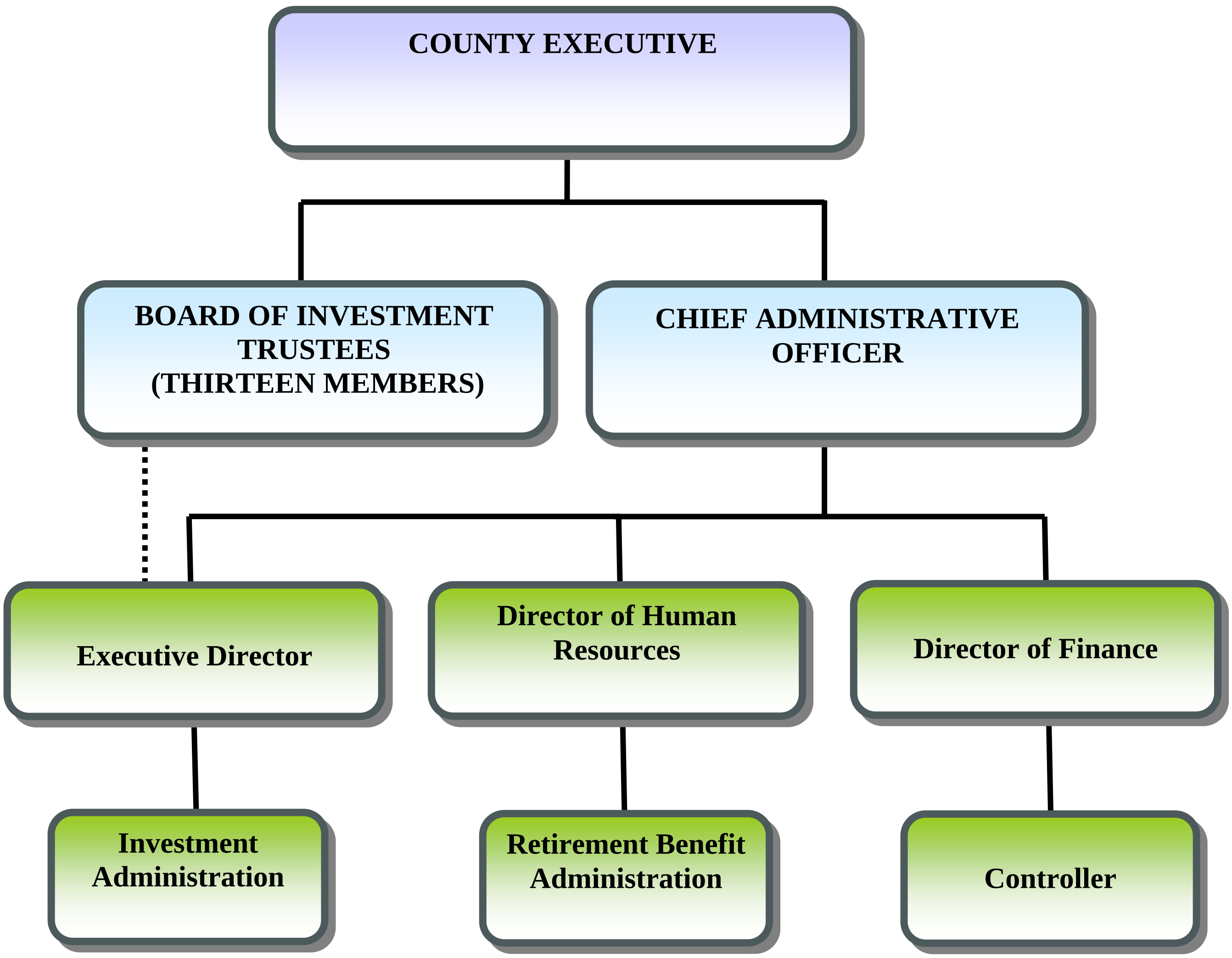
Money Managers-Employees' Retirement System

Gryphon International Investment Toronto, Canada	Numeric Investors Cambridge, MA	Adams Street Partners Chicago, IL
Marathon London United Kingdom	Wellington Mgt. Co. LLP Boston, MA	RhumbLine Advisors Boston, MA
Mondrian Investment Partners Ltd. United Kingdom	Goldman Sachs New York, NY	Systematic Financial Management Teaneck, NJ
BlackRock Financial Management New York, NY	Fidelity Investments Hebron, KY	Loomis Sayles & Co. L.P. Boston, MA
JP Morgan Investment Management New York, NY	Bridgewater Associates Westport, CT	Pomona Capital New York, NY
Barclays Global Investors San Francisco, CA	HarbourVest Partners Boston, MA	Nomura Corporate Research & Asset Management New York, NY
Landmark Partners Inc. Simsbury, CT	AEW Partners Boston, MA	TA Realty LLC Boston, MA
FX Concepts, Inc. New York, NY	First Quadrant L.P. Pasadena, CA	STW Fixed Income Management Carpentaria, CA

Custodial Bank-Employees' Retirement System

The Northern Trust Company
Chicago, IL

Administrative Organization Chart



FINANCIAL SECTION

Independent Auditors' Report

The Honorable County Council
of Montgomery County, Maryland

The Board of Trustees
Montgomery County Employees' Retirement Plans:

We have audited the accompanying statements of plan net assets of the Montgomery County Employees' Retirement Plans (the Plans) as of June 30, 2008 and the related changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Audit Standards*, we have also issued a report dated December 1, 2008, on our consideration of the Plans' internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 15 through 19 and the schedules of funding progress and employer contributions on page 33 are not a required part of the combining financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the 2008 basic financial statements. The introduction section, investment section, actuarial section, and statistical sections, as listed in the table of contents and 2008 supplementary information on pages 34 through 41 is presented for purposes of additional analysis and is not a required part of the 2008 basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic financial statements taken as a whole. The information in the introduction, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The financial statements of the Plans as of June 30, 2007 were audited by other auditors whose report dated December 7, 2007 expressed an unqualified opinion. The supplementary information included on pages 36 through 41 related to the Plans' 2007 financial statements was subjected to auditing procedures applied in the audit of those financial statements and, in the opinion of the predecessor auditors, is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

Clifton Gunderson LLP

Baltimore, Maryland
December 1, 2008

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Montgomery County Employee Retirement Plans (Plans) financial performance provides an introduction to the financial statements of the Plans as of and for the year ended June 30, 2008. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the transmittal letter in the Introduction Section on page 4, the financial statements, required supplementary information, and other supplementary information which follow this discussion.

REQUIRED FINANCIAL STATEMENTS

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The Statements of Plan Net Assets comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities distinguished as long-term and other liabilities. The Statements of Changes in Plan Net Assets report the changes of the Plans' net assets, measured by the additions by major sources and deductions by type. Comparative financial statements of the three plans are presented in the latter part of the financial section.

OTHER SIGNIFICANT MATTERS

During 2008, financial markets as a whole incurred significant declines in values. As of December 1, 2008, the investment portfolios of the Plans have also incurred significant declines in the values reported in the accompanying financial statements. However, it should be noted that the recent market events did not result in any material permanent impairment to the investment portfolios of the Plans and due to the values of investments fluctuating with market conditions, the amount of investment losses that the Plans will recognize in future financial statements, if any, cannot be determined.

FINANCIAL ANALYSIS OF THE MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

Shown below is a condensed presentation of the Net Assets of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

Net Assets
(Millions)

	ERS		RSP		DCP	
	2008	2007	2008	2007	2008	2007
Assets:						
Cash and investments	$ 3,078.4	$ 3,086.0	$ 127.0	$ 119.6	$ 241.1	$ 248.9
Receivables	20.1	17.3	1.5	1.0	1.0	1.0
Total assets	3,098.5	3,103.3	128.5	120.6	242.1	249.9
Liabilities	479.7	389.0	-	-	-	-
Total net assets	$ 2,618.8	$ 2,714.3	$ 128.5	$ 120.6	$ 242.1	$ 249.9

Shown below is a condensed summary of the Change in Net Assets of the ERS, RSP, and DCP for the years ended June 30:

Change in Net Assets (Millions)	ERS		RSP		DCP	
	2008	2007	2008	2007	2008	2007
Additions:						
Employer contributions	$ 117.7	$ 109.4	$ 13.6	$ 11.2	$ -	$ -
Member contributions	18.9	16.4	8.1	6.8	17.3	16.6
Net investment income (loss)	(81.8)	420.8	(8.4)	17.2	(9.4)	32.4
Total additions	54.8	546.6	13.3	35.2	7.9	49.0
Deductions:						
Benefits	147.1	136.8	-	-	-	-
Refunds	0.7	0.8	5.2	4.4	15.7	12.4
Administrative expenses	2.5	2.4	0.3	0.3	-	-
Total deductions	150.3	140.0	5.5	4.7	15.7	12.4
Total change in net assets	$ (95.5)	$ 406.6	$ 7.8	$ 30.5	$ (7.8)	$ 36.6

The following schedules provide a comparative summary and an analysis of each Plans' assets, liabilities and net assets, at June 30:

Employees' Retirement System Net Assets (Millions)	2008	2007	Percentage Change
Assets:			
Cash and investments	$ 3,078.4	$ 3,086.0	(0.2) %
Receivables	20.1	17.3	16.2
Total assets	3,098.5	3,103.3	(0.2)
Liabilities:			
Benefits payable and other liabilities	132.6	4.5	2,846.7
Obligations under securities lending agreements	347.1	384.5	(9.7)
Total liabilities	479.7	389.0	23.3
Total plan net assets	$ 2,618.8	$ 2,714.3	(3.5) %

The table shown above reflects a decrease in the Employees' Retirement System's net assets of $95.5 million or 3.5 percent during fiscal year (FY) 2008. The decrease reflects the volatility of the financial markets over the last twelve months resulting in decreased investment earnings. During the previous year net assets increased by $406.6 million.

Retirement Savings Plan Net Assets (Millions)			
	2008	2007	Percentage Change
Assets:			
Cash and investments	$ 127.0	$ 119.6	6.2 %
Receivables	1.5	1.0	50.0
Total assets	128.5	120.6	6.6
Liabilities	-	-	
Total plan net assets	$ 128.5	$ 120.6	6.6 %

During FY 2008, net assets increased 6.6 percent to $128.5 million. The increase is attributable to an increase in contributions. Membership in the Retirement Savings Plan increased from 4,964 at June 30, 2007, to 5,536 at June 30, 2008.

Deferred Compensation Plan Net Assets (Millions)			
	2008	2007	Percentage Change
Assets:			
Investments	$ 241.1	$ 248.9	(3.1) %
Receivables	1.0	1.0	-
Total assets and plan net assets	$ 242.1	$ 249.9	(3.1) %

Net assets of the Deferred Compensation Plan decreased 3.1 percent to $242.1 million during FY 2008. The decrease is primarily attributable to the volatility of the financial markets during the fiscal year.

ADDITIONS

The primary sources of additions for the Plans include member and employer (where applicable) contributions. The net loss is attributable to the volatile financial markets during FY08. The following tables compare the source and amount of additions for each Plan during FY 2008 and FY 2007.

Employees' Retirement System Contributions and Investment Income (Millions)			
	2008	2007	Percentage Change
Employer contributions	$ 117.7	$ 109.4	7.6 %
Member contributions	18.9	16.4	15.2
Net investment income (loss)	(81.8)	420.8	(119.4)
	$ 54.8	$ 546.6	(90.0) %

During FY 2008, employer contributions to the Employees' Retirement System increased by 7.6 percent due to an increase in the actuarial required contribution based on covered payroll. Member contributions increased by 15.2 percent due to higher pay levels.

The net investment loss for the Employees' Retirement System totaled $81.8 million for FY 2008, comprised of $157.1 million in net depreciation in fair value of investments, $88.1million in dividends and interest, $14.6 million from securities lending activities, and $27.4 million related to investment expenses. This is compared to net investment income of $420.8 million in FY 2007. The decrease in earnings compared to the previous fiscal year is due to the volatility of the financial markets.

Retirement Savings Plan
Contributions and Investment Income
(Millions)

	2008	2007	Percentage Change
Employer contributions	$ 13.6	$ 11.2	21.4 %
Member contributions	8.1	6.8	19.1
Net investment income (loss)	(8.4)	17.2	(148.8)
	$ 13.3	$ 35.2	(62.2) %

Employer contributions to the Retirement Savings Plan were $13.6 million in FY 2008, an increase of 21.4 percent from FY 2007. Member contributions were $8.1 million in FY 2008, an increase of 19.1 percent from FY 2007. The increase in contributions reflects the increase in the number of participants and higher salary levels in FY 2008.

The net investment loss is primarily attributable to depreciation in investments during FY 2008.

Deferred Compensation Plan
Contributions and Investment Income
(Millions)

	2008	2007	Percentage Change
Member contributions	$ 17.3	$ 16.6	4.2 %
Net investment income (loss)	(9.4)	32.4	(129.0)
	$ 7.9	$ 49.0	(83.9) %

Member contributions to the Deferred Compensation Plan were $17.3 million for FY 2008, compared to $16.6 million for FY 2007.

Net investment loss for the Deferred Compensation Plan was $9.4 million, compared to the investment income of $32.4 million in the previous fiscal year, which was primarily due to volatility of the financial markets during FY08.

DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2008 and 2007.

Employees' Retirement System
Deductions by Type
(Millions)

	2008	2007	Percentage Change
Benefits	$ 147.1	$ 136.8	7.5 %
Refunds	0.7	0.8	(12.5)
Administrative expenses	2.5	2.4	4.2
	$ 150.3	$ 140.0	7.4 %

During FY 2008, benefit payments increased by 7.5 percent over FY 2007 due primarily to an increase in the number of retirees and the annual cost-of-living increase. Refunds decreased 12.5 percent in 2008 from $0.8 million in FY 2007. Administrative expenses increased from $2.4 million in FY 2007 to $2.5 million in FY 2008 due to increased professional services.

Retirement Savings Plan
Deductions by Type
(Millions)

	2008	2007	Percentage Change
Refunds and administrative expenses	$ 5.5	$ 4.7	17.0 %

The expenses related to the Retirement Savings Plan are comprised of refunds and administrative costs. Expenses for FY 2008 totaled $5.5 million, an increase of 17.0 percent over FY 2007 levels due primarily to an increase in refunds.

Deferred Compensation Plan
Deductions by Type
(Millions)

	2008	2007	Percentage Change
Refunds	$ 15.7	$ 12.4	26.6 %

During FY 2008, refunds distributed from the Deferred Compensation Plan increased by 26.6 percent over the FY 2007 level.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2008

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ASSETS			
Equity in County's pooled cash and investments	$ 389,551	$ 383,224	$ -
Investments:			
Government and agency obligations	443,577,797	-	-
Asset-backed securities	34,552,257	-	-
Municipal/Provincial bonds	875,646	-	-
Corporate bonds	373,424,224	-	-
Collateralized mortgage obligations	22,285,630	-	-
Commerical mortgage-backed securities	25,303,933	-	-
Common and preferred stock	1,417,024,398	-	-
Mutual and commingled funds	1,037,426	126,576,941	241,093,028
Short-term investments	194,817,255	-	-
Cash collateral received under securities lending agreements	347,037,914	-	-
Real estate	73,837,446	-	-
Private equity	144,270,869	-	-
Total investments	3,078,044,795	126,576,941	241,093,028
Dividends receivable and accrued interest	11,672,596	-	-
Contributions receivable	8,369,431	1,542,833	1,025,781
Total assets	3,098,476,373	128,502,998	242,118,809
LIABILITIES			
Payable for collateral received under securities lending agreements	347,037,914	-	-
Benefits payable and other liabilities	132,637,020	32,336	-
Total liabilities	479,674,934	32,336	-
Net assets held in trust for pension benefits	$ 2,618,801,439	$ 128,470,662	$ 242,118,809

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ADDITIONS			
Contributions:			
Employer	$ 117,686,375	$ 13,583,208	$ -
Members	18,850,881	8,118,397	17,293,810
Total contributions	136,537,256	21,701,605	17,293,810
Investment income (loss)	(68,895,932)	(8,355,918)	(9,378,166)
Less investment expenses	14,606,891	26,705	-
Net loss from investment activities	(83,502,823)	(8,382,623)	(9,378,166)
Income from securities lending	14,577,497	-	-
Less securities lending expenses	12,820,730	-	-
Net income from securities lending	1,756,767	-	-
Total additions	54,791,200	13,318,982	7,915,644
DEDUCTIONS			
Retiree benefits	105,368,941	-	-
Disability benefits	34,934,780	-	-
Survivor benefits	6,723,276	-	-
Refunds	672,951	5,216,588	15,714,459
Administrative expenses	2,557,472	257,905	-
Total deductions	150,257,420	5,474,493	15,714,459
Net increase (decrease)	(95,466,220)	7,844,489	(7,798,815)
Net assets held in trust for benefits:			
Beginning of year	2,714,267,659	120,626,173	249,917,624
End of year	$ 2,618,801,439	$ 128,470,662	$ 242,118,809

See accompanying notes to financial statements.

INTRODUCTION

The Montgomery County Employee Retirement Plans (Plans) are offered to Montgomery County (County) employees whose eligibility to participate is based on employment status and other factors. Each of the Plans described below was established under a separate section of the Montgomery County Code (Code). The accompanying notes summarize the significant accounting policies and plan provisions for each of the Plans, including the Employees' Retirement System, a defined benefit pension plan; the Retirement Savings Plan, a defined contribution plan; and the Deferred Compensation Plan, a plan established pursuant to Section 457 of the Internal Revenue Code.

EMPLOYEES' RETIREMENT SYSTEM - Defined Benefit Pension Plan

The Montgomery County Employees' Retirement System (System or Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to public employee retirement systems. They are not intended to present fairly the financial position and results of operations of the entire County.

A. Plan Description and Contribution Information

Membership. At June 30, 2008, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	5,306
Terminated plan members entitled to but not yet receiving benefits	505
Active plan members	5,060

Plan Description. The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Nine other agencies and political subdivisions have elected to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

Contributions. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 4 percent to 8.5 percent of regular earnings annually based on group classification and contributions earn interest at the rate of 4 percent per annum as specified under Section 33-39(b) of the Code. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System using the actuarial basis as specified in Section 33-40 of the Code.

Benefit Provisions. Benefit provisions are established under the Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement group assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated plan members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group. Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. The System provides options for disability and death benefits to eligible participants. Annual cost-of-living adjustments are provided to retirees and beneficiaries based on the percentage increase in the Consumer Price Index.

Legislation enacted by the Montgomery County Council in November 1999 required the Chief Administrative Officer of the County to establish Deferred Retirement Option Plans, or DROP Plans, allowing any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

B. Summary of Significant Accounting Policies

Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are required to be made as specified under the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the System.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2008. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers' appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value for private equity is based on information provided by the fund managers. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's Pooled Cash and Investments. The System maintains its cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the System based on the System's average daily balance of its equity in pooled cash. The County's policy is to fully collateralize the cash maintained in the pool.

Accounting Changes. The System has adopted GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, which did not have a significant impact on the System's financial statements.

C. Funded Status and Funding Progress

The funded status of the System as of June 30, 2008, the most recent actuarial valuation date, is as follows:

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)
$2,701,119,470	$3,341,549,425	$640,429,955	80.8%	$372,214,906	172.1%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows.

Valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Amortization period	The initial period is 40 years. The average remaining period at June 30, 2008 is 22.8 years.
Asset valuation method	5-Year phase-in of market gains/losses
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases depending on age	4.75% - 7.50%
Cost-of-living adjustments	3.5%
Post-retirement Increases	Consumer Price Index - by Group
Mortality rates after retirement	RP 2000 projected 10 years, separate tables for males and females

D. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the System to be responsible for the investment management of the System's assets for the exclusive benefit of the members. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

E. Investments

Section 33-61C of the Code, authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing. Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

Credit Risk/Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2008 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	$ 265,058,334	25.66%
	BBB	473,960	0.05%
	BB	125,000	0.01%
Foreign Government Obligations	AAA	151,959,282	14.71%
	A	19,568,479	1.89%
	BBB	5,500,690	0.53%
	BB	892,052	0.09%
Asset-Backed Securities	AAA	30,187,663	2.92%
	AA	260,353	0.03%
	BBB	2,958,096	0.29%
	B	105,923	0.01%
	Unrated	1,040,222	0.10%
Commercial Mortgage-Backed Securities	AAA	21,404,440	2.07%
	Unrated	3,899,493	0.38%
Collateralized Mortgage Obligations	AAA	20,562,666	1.99%
	AA	154,076	0.01%
	BB	356,177	0.03%
	Unrated	1,212,711	0.12%
Municipal / Provincial Bonds	AA	875,646	0.08%
Corporate Bonds	AAA	11,131,163	1.08%
	AA	31,638,598	3.06%
	A	52,772,429	5.11%
	BBB	37,428,707	3.62%
	BB	55,858,584	5.41%
	B	71,681,709	6.94%
	CCC	21,458,482	2.08%
	D	61,250	0.01%
	Unrated	3,221,831	0.31%
Fixed Income Pooled Funds	Unrated	88,171,471	8.53%
Short-term Investments and Other	N/A	133,126,014	12.88%
Total Fixed Income Securities		$ 1,033,145,501	100.00%

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move up/down by 8 percent. As of June 30, 2008, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	6.56	$ 265,657,294	25.72%
Foreign Government Obligations	8.89	177,920,503	17.22%
Asset-Backed Securities	0.61	34,552,257	3.35%
Commercial Mortgage-Backed Securities	3.89	25,303,933	2.45%
Collateralized Mortgage Obligations	4.71	22,285,630	2.15%
Municipal /Provincial Bonds	6.77	875,646	0.08%
Corporate Bonds	4.68	285,252,753	27.62%
Fixed Income Pooled Funds	N/A	88,171,471	8.53%
Short-term Investments and other	N/A	133,126,014	12.88%
Total Fixed Income Securities		$ 1,033,145,501	100.00%

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and other	Total Non-U.S. Dollar
European Currency Unit	$ 129,433,696	$ 68,469,213	$ (43,252,163)	$ 154,650,746
Japanese Yen	107,538,308	-	2,223,096	109,761,404
British Pound Sterling	58,437,801	47,717,508	(53,814,838)	52,340,471
Swiss Franc	25,785,689	-	21,174,756	46,960,445
Hong Kong Dollar	21,541,736	-	12,691	21,554,427
Swedish Krona	7,636,274	31,123,299	(24,228,664)	14,530,909
Danish Krone	6,275,854	-	-	6,275,854
Malaysian Ringgit	2,834,680	1,592,858	-	4,427,538
Brazilian Real	-	2,064,924	-	2,064,924
Canadian Dollar	4,677,870	29,312,624	(36,533,106)	(2,542,612)
Other Currencies	23,695,628	6,827,852	(35,868,788)	(5,345,308)
Total International Securities	$ 387,857,536	$ 187,108,278	$ (170,287,016)	$ 404,678,798

Derivatives. The System invests in derivative instruments on a limited basis in accordance with the Board's Derivatives Policy. During FY 2008, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded futures contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with net negative fair values of approximately $2,168,000 are held for investment purposes and included within the financial statements at June 30, 2008. Gains and losses on futures and options are determined based upon fair values and recorded in the Statements of Changes in Plan Net Assets.

Interest rate swaps, foreign currency exchange swaps, and forward foreign currency exchange contracts are held for investment purposes. At June 30, 2008, the System had approximately $90,735,000 net exposure in foreign currency exchange and interest rate swaps and $157,418,000 negative net exposure in forward foreign currency exchange contracts.

Securities Lending. Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. The Board does not restrict the amount of loans the lending agent may make on its behalf. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2008, the fair value of securities on loan was $346,642,441. Cash received as collateral and the related liability of $347,037,914 as of June 30, 2008, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $14,577,497 and $12,820,730, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2008:

Securities Lent	**Underlying Securities**	**Non-Cash Collateral Value**	**Cash Collateral Investment Value**
Lent for Cash Collateral:			
U.S. Government Obligations	$ 91,591,441	$ -	$ 93,555,085
Foreign Government Obligations	1,196,492	-	1,267,574
Corporate Bonds	69,393,765	-	71,265,901
Equities	174,485,453	-	180,949,354
Lent for Non-Cash Collateral:			
U.S. Government Obligations	3,437,316	3,519,916	-
Corporate Bonds	6,518	6,674	-
Equities	6,531,456	6,885,816	-
Total	$ 346,642,441	$ 10,412,406	$ 347,037,914

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

F. Allocated Insurance Contract

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. Monthly payments made under this agreement have not been recognized in the System's financial statements.

G. Income Taxes

The Internal Revenue Service issued a determination letter in January 2003, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

RETIREMENT SAVINGS PLAN - Defined Contribution Pension Plan

The Montgomery County Retirement Savings Plan (Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County.

A. Plan Description and Contribution Information

Membership. At June 30, 2008 membership in the Plan consisted of:

Active plan members	4,746
Inactive plan members	790

Plan Description. The Plan, a cost-sharing multiple-employer defined contribution plan, was established in 1994 and is sponsored by the County. Eight other agencies or political subdivisions have elected to participate. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan. Eligible employees covered by the Montgomery County Employees' Retirement System may make an irrevocable decision to transfer to this Plan.

Contributions. Under Section 33-116 of the Code, the Plan requires employees to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage rate. Section 33-117 of the Code requires the County to contribute 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. In accordance with IRS regulations and the County Code, $400,000 in accumulated revenue was used to reduce employer contributions in FY2008.

Benefit Provisions. Employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment earnings.

B. Summary of Significant Accounting Policies

Basis of Accounting. The Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are required to be made as specified in the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the County and participating agencies.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2008.

Equity in County's Pooled Cash and Investments. The Plan maintains its cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the Plan based on the Plan's average daily balance of its equity in pooled cash. The County's policy is to fully collateralize the cash maintained in the pool.

C. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the Trust to oversee the investment program. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2008, the fair value of the mutual and commingled investment funds was $126,576,941. The fair value of the investments in international mutual funds was $21,053,000.

E. Income Taxes

The Internal Revenue Service issued a determination letter in December 2002, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and are qualified under the applicable provisions of the Internal Revenue Code.

DEFERRED COMPENSATION PLAN

During FY 2005, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

The accompanying financial statements present only the operations of the County Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County. The assets of the Union Plan are not included in the accompanying financial statements since neither the County nor the Board of Investment Trustees (Board) have fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

A. Plan Description and Contribution Information

Plan Description and Contributions. During 1999, in accordance with Federal legislation, the assets were placed in Trust for the sole benefit of participants and their beneficiaries. Trust responsibilities for the County Plan are assigned to the Board. The Board has a third-party administrator contract to provide investment vehicles and administrative services to plan participants. Under the County Plan, contributions are sent to the providers for different types of investments as selected by the participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings is maintained for each participant by the third-party administrator. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies.

B. Summary of Significant Accounting Policies

Basis of Accounting. The County Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are made. Distributions are recognized when paid in accordance with the terms of the County Plan, and administrative costs are recognized as incurred.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2008.

C. Trustees of the Plan

The County established a Board to oversee the investment program of the County Plan. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2008, the fair value of the mutual and commingled investment funds was $241,093,028. The fair value of the investments in international mutual funds included in the County Plan was $35,912,000.

REQUIRED SUPPLEMENTARY INFORMATION

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	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)
6/30/03	$ 2,029,314,438	$ 2,411,492,724	$ 382,178,286	84.2 %	$ 312,057,363	122.5 %
6/30/04	2,045,098,796	2,561,328,232	516,229,436	79.8	318,815,374	161.9
6/30/05	2,100,532,623	2,775,047,412	674,514,789	75.7	328,459,150	205.4
6/30/06	2,222,724,295	2,918,336,073	695,611,778	76.2	340,333,414	204.4
6/30/07	2,469,933,200	3,100,637,723	630,704,523	79.7	352,636,518	178.9
6/30/08	2,701,119,470	3,341,549,425	640,429,955	80.8	372,214,906	172.1

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	$ 55,205,855	100 %
2004	61,927,029	100
2005	74,655,371	100
2006	88,184,159	100
2007	109,436,001	100
2008	117,686,375	100

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2008

SCHEDULE OF ADMINISTRATIVE EXPENSES

Personnel Services:	
Salaries and wages	$ 1,058,276
Retirement contributions	80,322
Insurance	93,949
Social security	78,238
Total personnel services	1,310,785
Professional Services:	
Actuarial	246,569
Independent public accountants	32,478
Outside legal	98,804
Total professional services	377,851
Benefit Processing:	
Disbursement services	476,553
Disability management	281,695
Total benefit processing	758,248
Due diligence and continuing education	28,537
Office Management:	
Office equipment and supplies	81,811
Miscellaneous	240
Total office management	82,051
Total administrative expenses	$ 2,557,472

SCHEDULE OF INVESTMENT EXPENSES

Investment Management Expenses:	
Aetna Life Insurance Company	$ 4,870
Barclays Global Investors	25,447
BlackRock Financial Management	518,606
Bridgewater Associates	1,894,070
First Quadrant	924,062
FX Concepts	921,537
Goldman Sachs	684,962
Gryphon International Investment	898,930
JP Morgan Investment Management	762,700
Loomis Sayles	548,740
Marathon London	1,403,199
Mondrian Investment Partners Ltd.	705,872
Nomura Corporate Research & Asset Management	450,814
Numeric Investors	2,922,782
RhumbLine Advisors	21,355
Systematic Financial Management	606,795
Wellington Management	776,010
The Northern Trust Company	279,250
Bloomberg Financial Systems	10,800
Wilshire Associates	225,090
Abel/Noser Corp.	21,000
Total investment management expenses	14,606,891
Securities lending borrower rebates	12,235,424
Securities lending agent fees	585,306
Total securities lending expenses	12,820,730
Total investment expenses	$ 27,427,621

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Equity in County’s pooled cash and investments	$ 389,551	$ 290,445
Investments:		
Government and agency obligations	443,577,797	301,386,117
Asset-backed securities	34,552,257	57,774,486
Municipal/Provincial bonds	875,646	1,174,270
Corporate bonds	373,424,224	295,897,623
Collateralized mortgage obligations	22,285,630	13,898,231
Commercial mortgage-backed securities	25,303,933	64,854,406
Common and preferred stock	1,417,024,398	1,643,956,241
Mutual and commingled funds	1,037,426	1,045,987
Short-term investments	194,817,255	181,339,966
Cash collateral received under securities lending agreements	347,037,914	384,513,936
Real estate	73,837,446	30,928,663
Private equity	144,270,869	108,944,183
Total investments	3,078,044,795	3,085,714,109
Dividends receivable and accrued interest	11,672,596	10,001,833
Contributions receivable	8,369,431	7,282,500
Total assets	3,098,476,373	3,103,288,887
LIABILITIES		
Payable for collateral received under securities lending agreements	347,037,914	384,513,936
Benefits payable and other liabilities	132,637,020	4,507,292
Total liabilities	479,674,934	389,021,228
Net assets held in trust for pension benefits	$ 2,618,801,439	$ 2,714,267,659

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	**2007**
ADDITIONS		
Contributions:		
Employer	$ 117,686,375	$ 109,436,001
Members	18,850,881	16,362,462
Total contributions	136,537,256	125,798,463
Investment Income:		
Net appreciation (depreciation) in fair value of investments	(157,001,898)	359,326,888
Dividends and interest	88,105,966	72,728,867
Total income (loss) from investment activities	(68,895,932)	432,055,755
Less investment expenses	14,606,891	12,014,393
Net income (loss) from investment activities	(83,502,823)	420,041,362
Income from securities lending	14,577,497	18,460,425
Less securities lending expenses	12,820,730	17,654,765
Net income from securities lending	1,756,767	805,660
Total additions	54,791,200	546,645,485
DEDUCTIONS		
Retiree benefits	105,368,941	98,652,678
Disability benefits	34,934,780	32,228,463
Survivor benefits	6,723,276	5,951,967
Refunds	672,951	792,641
Administrative expenses	2,557,472	2,431,639
Total deductions	150,257,420	140,057,388
Net increase (decrease)	(95,466,220)	406,588,097
Net assets - beginning of year	2,714,267,659	2,307,679,562
Net assets - end of year	$2,618,801,439	$2,714,267,659

RETIREMENT SAVINGS PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Equity in County's pooled cash and investments	$ 383,224	$ 509,850
Investments	126,576,941	119,063,075
Contributions receivable	1,542,833	1,086,498
Total assets	128,502,998	120,659,423
LIABILITIES		
Accrued expenses	32,336	33,250
Net assets held in trust for pension benefits	$ 128,470,662	$ 120,626,173

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
ADDITIONS		
Contributions:		
Employers	$ 13,583,208	$ 11,227,348
Members	8,118,397	6,797,447
Total contributions	21,701,605	18,024,795
Investment income (loss)	(8,906,352)	16,630,901
Less investment expenses	26,705	30,702
Net investment income (loss)	(8,933,057)	16,600,199
Other income	550,434	573,691
Total additions	13,318,982	35,198,685
DEDUCTIONS		
Refunds	5,216,588	4,454,660
Administrative expenses	257,905	293,006
Total deductions	5,474,493	4,747,666
Net increase	7,844,489	30,451,019
Net assets - beginning of year	120,626,173	90,175,154
Net assets - end of year	$ 128,470,662	$ 120,626,173

DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Investments	$ 241,093,028	$ 248,948,643
Contributions receivable	1,025,781	968,981
Total assets and net assets held in trust for pension benefits	$ 242,118,809	$ 249,917,624

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	**2007**
ADDITIONS		
Contributions - members	$ 17,293,810	$ 16,649,114
Investment income (loss)	(9,378,166)	32,393,760
Total additions	7,915,644	49,042,874
DEDUCTIONS		
Member refunds	15,714,459	12,409,959
Total deductions	15,714,459	12,409,959
Net increase (decrease)	(7,798,815)	36,632,915
Net assets - beginning of year	249,917,624	213,284,709
Net assets - end of year	$ 242,118,809	$ 249,917,624

INVESTMENT SECTION

Employees' Retirement System

EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board of Investment Trustees (Board) and the investment staff are responsible for managing the $2.6 billion fund, Employees' Retirement System (the System), invested solely in the interests of its beneficiaries. It is a significant responsibility due to the majority of the average retiree benefit coming from investment earnings on contributions from members, the County, and participating agencies. According to Wilshire Associates, a national consulting firm, the median return among U.S. public pension plans in FY 2008 was a loss of 4.56%. The System's return for the fiscal year was a loss of 2.54% net of fees, ranking in the top 32nd percentile of all public plans in the universe. The study also ranked the System's three-year return of 7.85% in the 6th percentile and its five-year return of 10.04% in the 8th percentile. The returns for all periods exceeded the performance benchmarks established by the Board. The key drivers of the performance for the twelve month period ending June 30, 2008 were the System's public equity and global inflation-protected bond managers.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the System. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets.

Specific investment objectives include:

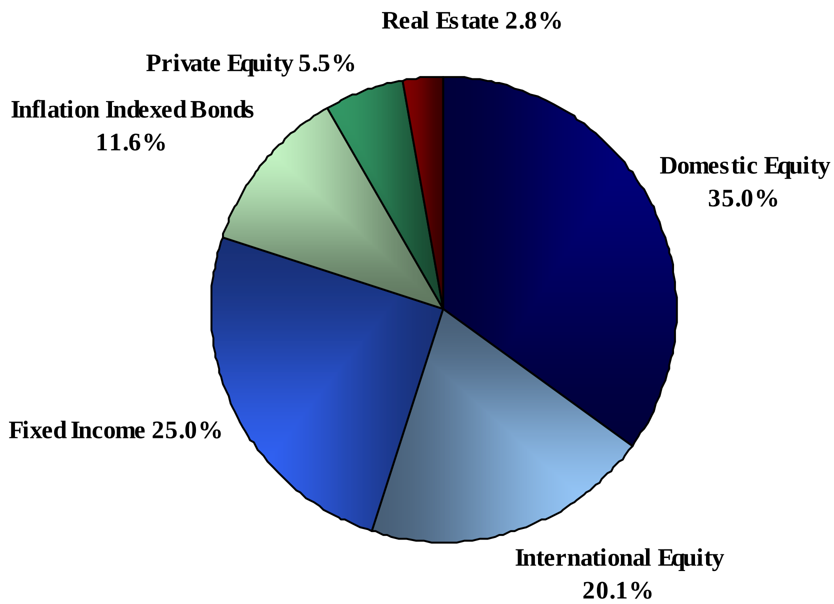
- To realize the actuarial assumed rate of return of 8 percent, annually.
- To manage portfolio risk so as to limit potential downside fluctuations in the value of the total System assets.
- To realize as high a rate of total return as possible consistent with the above.

To achieve these objectives, the following investment policies are employed:

- Allocate System assets to a broad array of investment sectors and strategies.
- Maintain the asset allocation within a range of +/-3% from the target.
- Monitor the individual investment manager's market value to ensure compliance with the Board's Manager Funding Policy.
- Evaluate the performance of all investment managers against their specific performance and style objectives, assigned risk, and the returns achieved by other similar managers.
- Evaluate the System's overall risk exposure and modify investments through rebalancing when necessary.

During FY 2008, the Board continued the implementation of a revised strategic asset allocation which will result in further diversification of the investment portfolio. Toward this goal, the Board approved the following investments during the twelve months ending June 30, 2008: long-short extension equity strategies, long duration fixed income, portable alpha managers, and additional private equity, real estate, and real assets managers. The Board also hired a consultant to assist with implementation of the Sudan Divestment legislation enacted by the Montgomery County Council during the fiscal year.

ASSET ALLOCATION – JUNE 30, 2008



INVESTMENT PERFORMANCE SUMMARY

	ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2008		
	1 Year	**3 Year**	**5 Year**
Total Fund			
MCERS	(2.26) %	8.22 %	10.42 %
Policy Benchmark	(5.08)	6.60	8.96
Total Domestic Equities			
MCERS	(9.81)	6.38	9.97
Russell 3000	(12.69)	4.73	8.37
Total Private Equities			
MCERS	3.08*	10.46*	N/A
Russell 3000 + 300 Bpts	(11.02)*	2.76*	N/A
Total International Equities			
MCERS	(6.01)	16.63	19.91
MSCI All Country World X US	(6.64)	15.67	18.94
Total Real Estate			
MCERS	6.71*	N/A	N/A
Policy Benchmark	**	N/A	N/A
Total Fixed Income			
MCERS	1.97	3.20	4.17
Policy Benchmark	4.65	4.08	4.46
Total Inflation Index Bonds			
MCERS	18.55	7.17	7.68
Custom IIB Benchmark	12.54	5.11	6.09

Return data for the System was calculated on a time weighted basis (except where noted). Returns shown are provided by the System's custodian bank, The Northern Trust Company. Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. Returns are gross of fees paid to investment managers except where noted.

*Returns computed on dollar-weighted basis and are net of investment management fees.

** Benchmark comparison is not meaningful at this time due to the short investment history of the System real estate program.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2008 represented approximately 55.1% of the total fund, split between Domestic Equity at 35.0% and International Equity at 20.1%. The Domestic Equity Portfolio outperformed the Russell 3000 Benchmark by 2.88% for the one year ending June 30, 2008. Small and large capitalization value stocks contributed the most on a relative return basis.

The International Equity Portfolio was allocated as follows: 79.4% EAFE, 17.2% emerging market and 3.4% passive. The International Equity Portfolio utilizes risk-controlled active currency strategies that attempt to capitalize on currency market inefficiencies by taking long and short currency positions based on their fundamental attractiveness. The notional value of these strategies totaled $500 million as of June 30, 2008. The International Equity Portfolio outperformed the MSCI ACWI ex US Benchmark by 0.63% for the one year ending June 30, 2008.

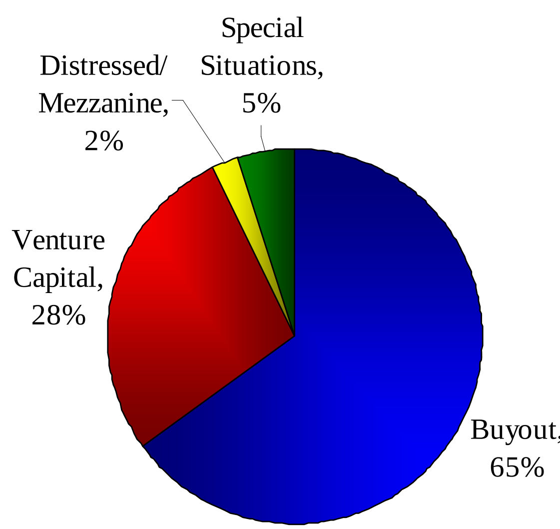
Equity: Top 15 Holdings

The top 15 holdings in the Public Equity Portfolio comprised 3.6% of ERS assets at June 30, 2008. During the fiscal year the Board moved approximately $290 million from separate accounts to commingled funds. This move resulted in eleven companies falling from the list. Exxon Mobil, Microsoft, AT&T, and Google remain and Fresenius, Novartis, Total, Western Union, Siemens, Weatherford, BNP Paribas, Kao, Chesapeake Energy, Kingboard Chemical, and Li & Fung were added.

Equity	Shares	Value
Exxon Mobil	107,200	$ 9,447,536
Microsoft	321,600	8,847,216
Fresenius	76,155	6,583,632
Novartis	117,983	6,515,358
Total	72,840	6,220,158
Western Union	241,314	5,965,282
Siemens	53,450	5,938,711
Weatherford	118,340	5,868,481
AT&T	171,895	5,791,143
BNP Paribas	63,454	5,752,559
Kao	218,000	5,727,371
Chesapeake Energy	86,540	5,708,178
Google	10,233	5,386,856
Kingboard Chemical	1,153,500	5,325,587
Li & Fung	1,752,800	5,282,599

PRIVATE EQUITY

The System began investing in private equity in 2003 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. At June 30, 2008, the Private Equity Portfolio comprised 5.5% of total fund assets. Approximately 51% of the dollars committed have been called. The Private Equity program seeks to outperform the Russell 3000 Index by 3% annually. System returns are calculated on a dollar-weighted or internal rate-of-return basis, and the annualized return since inception (2003) through June 30, 2008 was 10.2%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same period was 3.9%.

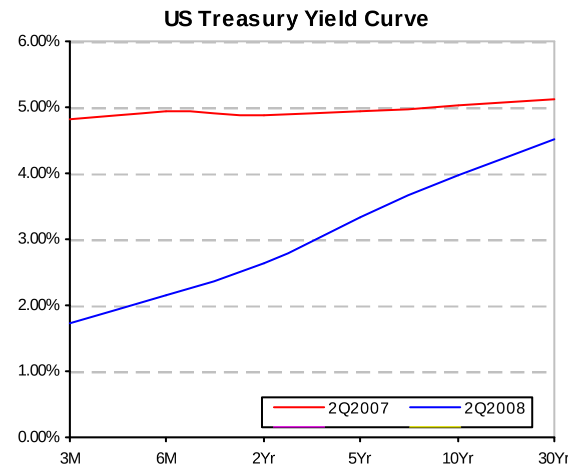


During the fiscal year, buyout activity slowed substantially in the wake of the global credit crisis. Venture capital investment continued to be robust, although exit opportunities were constrained by lack of investor interest in initial public offerings. Distressed debt managers raised funds in anticipation of turnaround opportunities resulting from overleveraged corporations.

PORTFOLIO HIGHLIGHTS

FIXED INCOME

The System invests a portion of its portfolio in fixed income securities to reduce total fund volatility, produce income and provide a measure of protection in the event of a slowing economic environment, where these lower volatility assets should provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2008 represented approximately 25.0% of the total fund. The Fixed Income Portfolio returned 1.97%, underperforming the benchmark return of 4.65% by 2.68% during the fiscal year. Returns were weak during the fiscal year due to the impact of the credit crisis on mortgage and asset backed securities, as well as high yield – all suffered due to the limited liquidity and spread widening through the year.



The last twelve months have been a period of significant volatility in fixed income markets. The change in the US Treasury Yield Curve (see above) reflects the sub-prime mortgage crisis unfolding into a wider market concern. The Federal Reserve acted sharply and decisively, starting to cut rates in the 3rd quarter of 2007 for a total cut of 325bps in the Fed Funds rate, reaching a low of 2.0%. An additional concern that impacted fixed income markets was the limited liquidity that resulted from investment banks, the traditional market makers, deleveraging their books. Spreads have widened dramatically on corporates, mortgage and asset backed securities, and high yield bonds, with many bonds trading at distressed levels.

Fixed Income: Top 15 Holdings

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
United States Treasury Bonds	3.875 %	May 15, 2018	$ 23,695,262
Federal Home Loan Mortgage Corporation Gold Single Family Mortgage 30 year	5.500	TBA settles July	17,326,150
Federal Home Loan Mortgage Corporation 30 Year Participation Certificate	5.000	TBA settles July	14,271,272
United States Treasury Bonds	5.000	May 15, 2037	12,514,742
US Treasury Inflation Index Linked Bonds	3.875	15 April, 2029	11,694,658
Canada Index Linked Government Bonds	3.000	January 12, 2036	10,299,769
France Government OAT Index Linked Bonds	2.250	July 25, 2020	10,126,769
Federal National Mortgage Assn. Single Family Mortgage 30 year	5.000	TBA settles July	9,967,755
Sweden Index Linked Government Bonds	3.500	January 12, 2015	9,647,519
Federal National Mortgage Assn. Pool 30 year	5.000	January 5, 2036	9,597,092
UK Government Inflation Linked Bonds	2.500	July 26, 2016	7,800,831
Government National Mortgage Assn. Single Family Mortgage 30 year	5.500	TBA settles July	7,562,000
Sweden Index Linked Government Bonds	3.500	January 12, 2028	7,461,099
France Government OAT Index Linked Bonds	3.000	July 25, 2012	7,398,207
Italy BTPI Index Linked Bonds	2.150	September 15, 2014	7,347,730

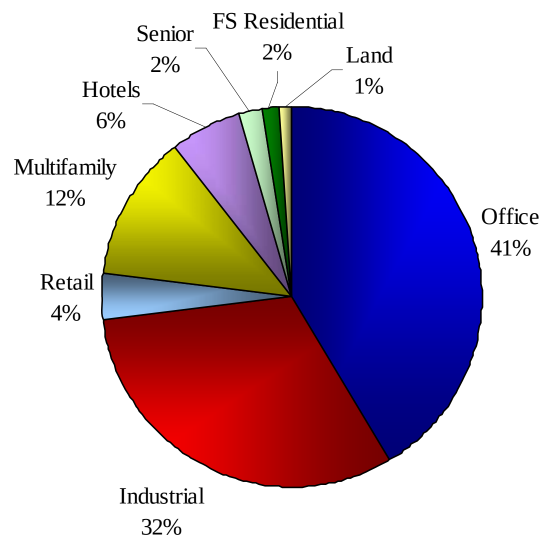
A complete list of the portfolio holdings can be obtained by contacting the Board of Investment Trustees office.

PORTFOLIO HIGHLIGHTS

REAL/INFLATION HEDGE ASSETS

Real Estate

The System began investing in value-added and opportunistic real estate in 2006 to attain real returns uncorrelated with the broad securities markets. Returns are computed on a dollar-weighted or internal rate-of-return basis, and from inception to June 30, 2008 the investments generated an annualized return of 7.3%. The real estate portfolio comprised 2.8% of the ERS portfolio at June 30, 2008 with approximately 77% of the total capital committed to real estate being contributed.



During the fiscal year, the residential mortgage crisis expanded into other sectors of the real estate industry. Transaction volume of commercial properties was down significantly versus the prior year as the availability of debt financing – one of the key drivers of the recent real estate boom – decreased. Within the System's portfolio, our managers continue to pursue properties with opportunities to add value through active management.

Inflation-Indexed Bonds

The System allocates a portion of fund assets to inflation-indexed bonds which provide protection against inflation risk as well as providing a diversified return stream to manage volatility. The Inflation-Indexed Bond Portfolio represented 11.6% of the total fund. The Portfolio, which also includes an absolute return fund as portable alpha, returned 18.55% during the fiscal year, outperforming the benchmark by 6.01%.

The performance of inflation-indexed bonds was extremely strong during the fiscal year. They benefited from the flight to quality as yields declined sharply, but also generated strong returns in the face of unexpected inflation driven by soaring commodities prices, particularly oil. Our portfolio also benefited from opportunistic allocations to commodities, bond and currency positions, through the manager's actively managed portfolio.

Inflation-Indexed Bonds - Country Exposures		
United States	39.5	%
Euroland	21.7	
United Kingdom	17.2	
Sweden	11.3	
Canada	10.3	

PORTFOLIO HIGHLIGHTS

MONEY MANAGERS

The diversified investment structure as of June 30, 2008 is reflected in the following tables, which list MCERS managers by investment sector and style.

Public Equity Managers	Investment Style
Domestic Equity	
BGI Russell 1000 Fund*	Russell 1000 Index
RhumbLine Advisors	Russell 1000 Index
Numeric Investors*	Amplified Core
JP Morgan*	Large Cap Core Plus
Systematic Financial Mgt.	Large Cap Value
Goldman Sachs	Large Cap Growth
Wellington	Small Cap Value
Numeric Investors	Small Cap Growth
Fidelity Investments*	Various
International Equity	
Marathon	EAFE
Gryphon	EAFE
Mondrian*	Emerging Markets
BGI EAFE Fund*	EAFE Index

Foreign Currency Mgrs.	Investment Style
First Quadrant*	Foreign Currency
FX Concepts*	Foreign Currency

Private Equity Managers	Investment Style
Adams Street	Fund-of-Funds
HarbourVest	Fund-of-Funds
Landmark	Fund-of-Funds
Pomona Capital	Fund-of-Funds

Real Estate Managers	Investment Style
TA Associates	Value-Added
AEW Capital	Opportunistic

Fixed Income Managers	Investment Style
JP Morgan	Core Plus
BlackRock	Core Plus
STW	Long Duration
Nomura	High Yield
Loomis Sayles	High Yield
BGI US Debt Fund*	Lehman Aggregate Index

Inflation-Indexed Bond Mgrs.	Investment Style
Bridgewater*	Inflation Indexed Bonds

* Pooled Funds

PUBLIC EQUITY COMMISSIONS

JULY 1, 2007 THROUGH JUNE 30, 2008

Brokers	Commissions (thousands)
Credit Suisse First Boston Corporation	$ 118
Investment Technology Group, Inc.	98
Spear Leeds & Kellogg	75
Morgan Stanley & Co., Inc.	72
Liquidnet Inc.	66
Merrill Lynch Pierce Fenner & Smith, Inc.	66
Lehman Brothers Inc.	34
Instinet	31
Citigroup Global Markets	25
Other Brokers (86 brokers)	327
Total	$ 912

ACTUARIAL SECTION

Employees' Retirement System

November 6, 2008

Board of Investment Trustees
Montgomery County Government Retirement System
101 Monroe Street
Rockville, MD 20850

Subject: July 1, 2008 Actuarial Valuation Report

Dear Members of the Board:

Mercer annually performs an actuarial valuation of the Montgomery County Employees' Retirement System for the Montgomery County Government. The most recent actuarial valuation performed was as of July 1, 2008. The purpose of this valuation was to:

- Review experience under the Plan for the year ending June 30, 2008
- Determine the liabilities of the Plan as of June 30, 2008
- Determine the contribution to be paid biweekly during the fiscal year ending June 30, 2010.

The actuarial information in this letter is provided in detail in our valuation report.

Valuation Results

Sections II through IV of the valuation report detail the results of the 2008 valuation, including a breakdown by employee group and plan. This valuation reflects demographic assumption changes resulting from the Group F and Group G plan changes effective July 1, 2008. All other actuarial assumptions are the same as those used in the 2007 valuation.

County Contributions

Contributions are computed using the Projected Unit Credit method of funding. The objective of this method is to fund each participant's benefits under the Plan, as they would accrue, taking into consideration future salary increases. Thus the total pension to which each participant is expected to become entitled is broken down into units; each associated with a year of past or future credited service.

If all actuarial assumptions are met in the future and if there are no plan changes, the County contribution as a percentage of the payroll covered by this plan may begin to slowly decrease. This is because the closure of the plans to new non-public safety members, which had been in effect for many years, will end July 1, 2009. Current and future members of the defined contribution plan will be able to elect to participate in a cash balance form of benefits in this plan.

The July 1, 2008 actuarial valuation sets the County's contribution rates for the fiscal year ending June 30, 2010. The rates are set separately for public safety and non-public safety employee groups and will be applied to each group's total covered payroll for the fiscal year 2010. Thus, the exact dollar amount of the required contribution will not be known until the end of the fiscal year 2010. The contribution rates for fiscal year 2010 were determined based on the total payroll at July 1, 2008, taking into account the general wage adjustments for FY09 on July 6, 2008 and January 4, 2009.

Investments

During the 2007-2008 plan year, the rate of return after investment expenses on the market value of assets was -3.0%. On a market value basis, the return was $298.3 million less than the 8% assumed rate of return. This $298.3 million loss is phased in over a five-year period. Gains and losses from 2007-2008 and prior years produced a net loss on an actuarial value of assets basis. As of July 1, 2008, net investment losses of $82.3 million had not yet been recognized in the actuarial value of assets.

The 2008 valuation was based on an actuarial value of assets of $2,701,119,470.

We used the financial information provided by the County without further audit.

Aetna Contract

The value of the Aetna non-participating group-annuity contract is excluded from all calculations.

Plan Provisions

The July 1, 2008 valuation reflects the plan changes applicable to groups A, F, G and H. The following plan changes were all effective July 1, 2008.

Group F changes:

- The 2.4% pre-SSNRA and 1.65% post-SSNRA (for integrated plan members) normal retirement benefit multipliers are extended to 36 years of service including sick leave.
- Allow unreduced early retirement at 25 years of service, regardless of age.
- Implement a three-year DROP program of Discontinued Retirement Service Program (DRSP) as follows:

- Eligibility for DRSP entry when member attains age 46 and 25 years of credited service
- No employee contribution while in DRSP

Group G changes:

- Provide that any employee who is or becomes entitled to benefits pursuant to §9-503 of the labor and employment article of the annotated code of Maryland, or who incurs esophageal, lymphatic, testicular, brain, lung, bladder, kidney cancer or multiple myeloma or melanoma or any blood borne pathogen is automatically entitled to service-connected disability retirement benefits under the Montgomery County Employees' Retirement System.

- We assumed that the expanded presumptions would increase the percentage of disabilities classified as service-connected from 90% to 93%.

Retirement Incentive Program:

The Retirement Incentive Program provided enhanced benefits to 152 group A and H participants. Each retiree received a $25,000 lump sum payment. The early retirement reductions that would normally apply were reduced for some participants and eliminated for others.

Participant Data

Between June 30, 2007 and June 30, 2008, there was a 0.8% increase in the number of plan members. However, the number of active members decreased by 4.4%, from 5,294 to 5,060. The total payroll increased by 0.3%, from $374.8 million to $376.0 million.

Aetna provided the retiree data, including benefits. The County provided data on active and terminated vested members. This information would customarily not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

Supplementary Information

The July 1, 2008 actuarial valuation report also provides supplemental information, including the schedule of funding progress. This schedule is presented in the financial section of the County's Comprehensive Annual Financial Report (CAFR). This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and to provide a means for making comparisons with other public employee retirement systems.

The County extracted the information from the July 1, 2008 valuation report for the following schedules in the actuarial section and the statistical section of County's Comprehensive Annual Financial Report.

- Summary of Results
- System Contribution
- Membership
- Actuarial Assumptions and Methods
- Solvency Test

Actuarial Certification

All costs, liabilities, and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. The information provided has been determined in accordance with the provisions of Statement Numbers 25 and 27 of the Governmental Accounting Standards Board. The costs are calculated using an actuarial cost method that we believe is appropriate. The actuarial assumptions are reasonable in our opinion and represent our best estimate of the anticipated experience under the Plan.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Respectfully submitted,

Douglas L. Rowe

Douglas L. Rowe, FSA, EA

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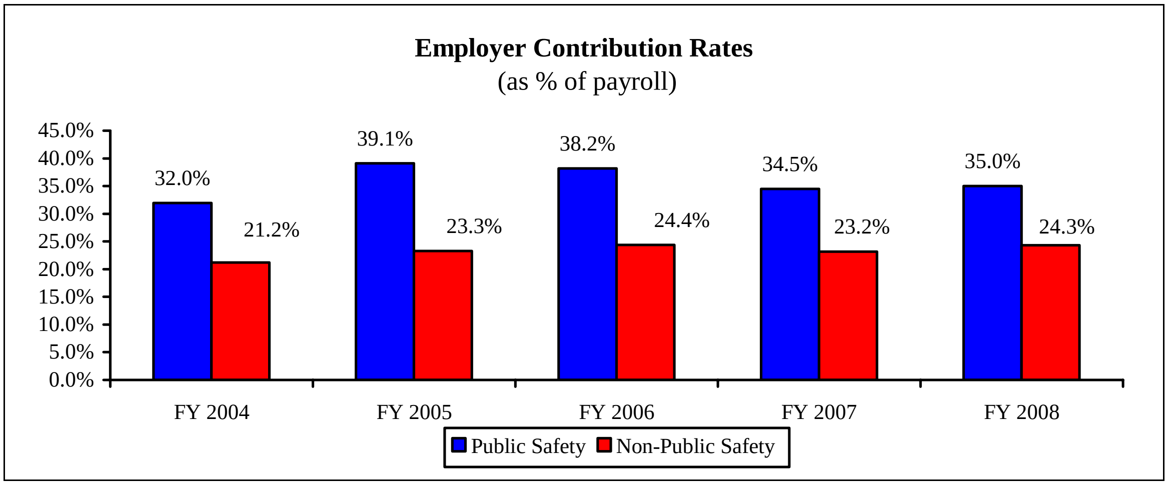
SUMMARY OF VALUATION RESULTS
EMPLOYEES' RETIREMENT SYSTEM

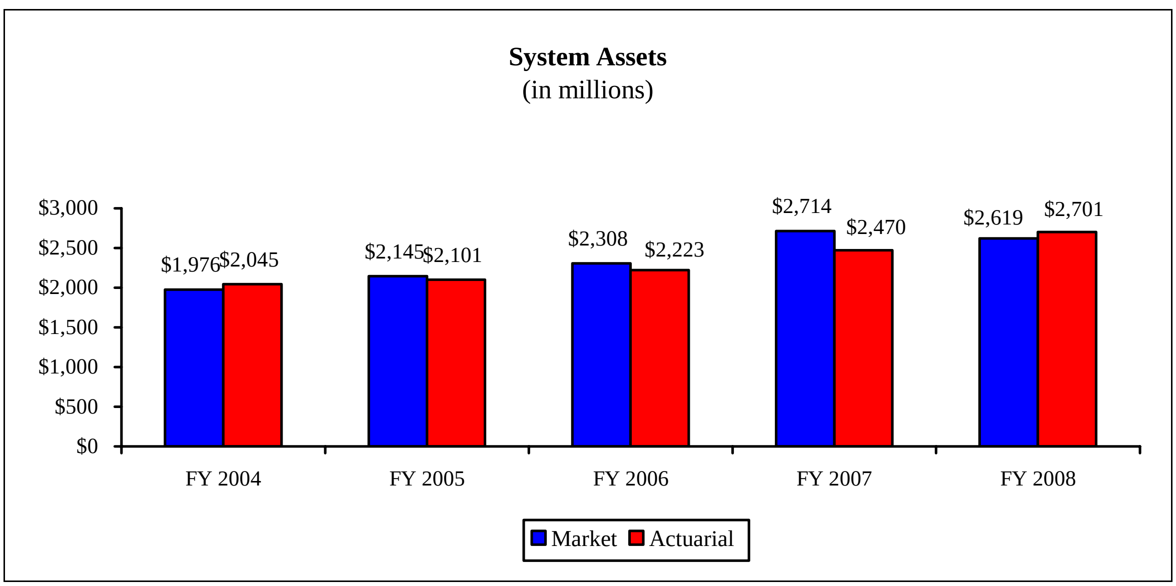
A. Overview

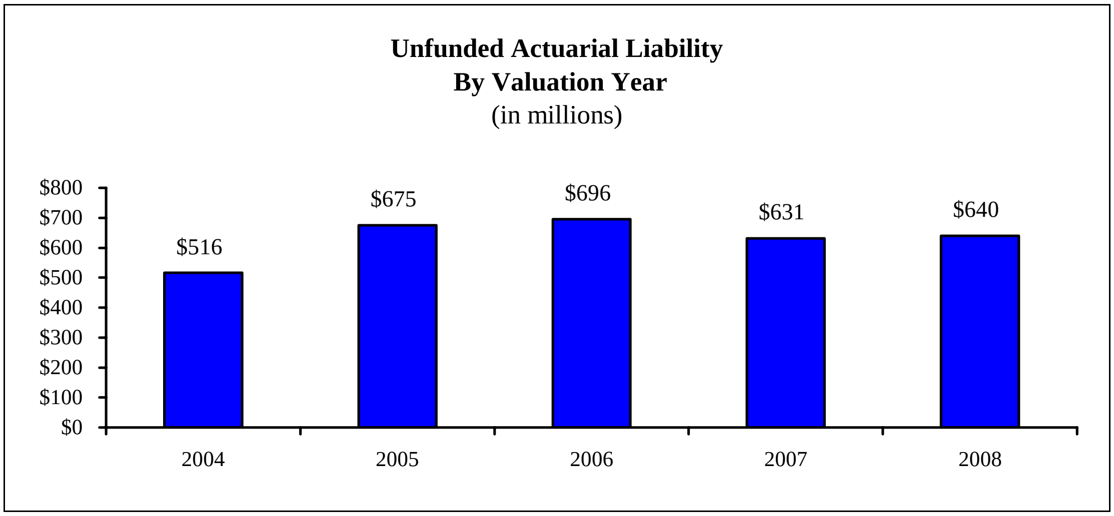
This report presents the results of our June 30, 2008 actuarial valuation of the Montgomery County Employees' Retirement System.

The major findings of the valuation are summarized in the following charts:

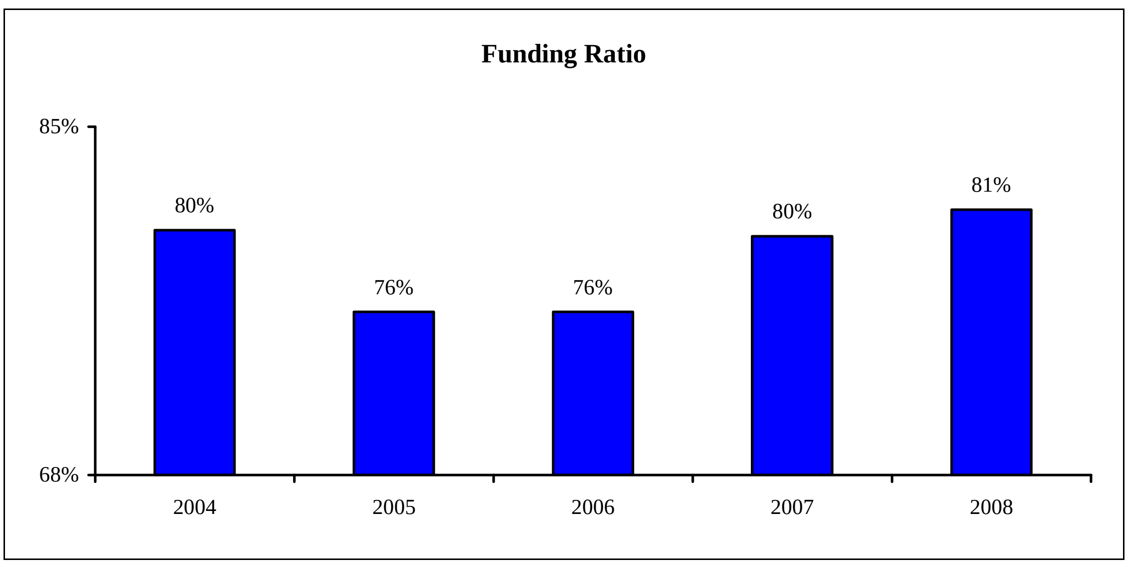


The change in the employer contribution rate in FY 2008 was due to actual System experience versus actuarial assumptions.





The unfunded actuarial liability increased in FY 2008 due to changes in plan benefits, normal cost, interest, and contributions.



The ratio of actuarial assets to the actuarial accrued liability increased by 1% in FY08.

B. Summary of Results

	July 1, 2007	July 1, 2008
Actuarial Liability		
a. Active Members	$ 1,438,945,337	$ 1,494,033,391
b. Retired Members and Beneficiaries	1,635,227,920	1,821,698,565
c. Vested Former Members	26,464,466	25,817,469
d. Total	$ 3,100,637,723	$ 3,341,549,425
Valuation Assets	$ 2,469,933,200	$ 2,701,119,470
Unfunded Actuarial Liability	$ 630,704,523	$ 640,429,955
Normal Cost		
a. Gross Normal Cost	$ 72,230,659	$ 74,273,903
b. Anticipated Employee Contributions	$ 17,442,875	$ 17,559,022
c. County Normal Cost (a -b)	$ 54,787,784	$ 56,714,881
Amortization Payment	$ 54,868,357	$ 57,413,839
County Contribution at date shown	$ 109,656,141	$ 114,128,720
County FY 2009/FY 2010 Contribution (as a % of covered payroll)		
Public Safety Employee	34.46%	35.01%
Non-Public Safety Employees	23.17%	24.25%

C. Valuation Highlights

1. System Assets

As of June 30, 2008, the System had assets, valued at market, of $2.619 billion, as compared to $2.714 billion at June 30, 2007. The decrease of $95 million was attributable to the following:

a. An increase of $137 million from employer and employee contributions;
b. An decrease of $82 million from investment loss; and
c. A decrease of $150 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were $2.701 billion at June 30, 2008, and $2.470 billion at June 30, 2007. The asset valuation method smoothes the fluctuations generated by intermittent market gains and losses. This method phases-in investment gains and losses arising during and after the 1994 fiscal year over a five-year period from the date established. Effective July 1, 1997, the calculation of the actuarial value of assets was changed to exclude the present value of estimated accrued contributions.

2. System Liabilities

The Unfunded Actuarial Liability increased $9 million, from $631 million at July 1, 2007, to $640 million at July 1, 2008, as follows:

Actual Unfunded Liability at beginning of year	$	630,704,523
Actual Unfunded Liability at end of year		640,429,955
Increase in Actual Unfunded Liability	$	(9,725,432)

The increase in Actual Unfunded Liability for the year ended June 30, 2008, is comprised of the following:

Decrease due to gain on actuarial value of assets	$	47,850,027
Increase due to demographic gain and other factors		(6,433,265)
Increase due to normal cost, interest and contributions		(18,239,704)
Increase due to plan changes		(32,902,490)
Increase in Actual Unfunded Liability	$	(9,725,432)

3. System Contributions

Contributions to the System include a "normal cost" rate which covers the portion of projected liabilities related to service of members. In addition, an amortization payment is made to fund the unfunded liability related to changes made to benefits in previous years which are being funded over a specific period of time.

The increase in the employer contribution rate is attributable to the following:

	Public Safety	Non-Public Safety
Employer contribution rate - June 30, 2007	34.46 %	23.17 %
Decrease due to gain on actuarial value of assets	(1.08)	(0.87)
Increase due to actuarial gains & losses	0.76	0.39
Increase due to plan changes	0.87	1.56
Employer contribution rate - June 30, 2008	35.01 %	24.25 %

4. Membership

The active membership of the System decreased from 5,294 at June 30, 2007 to 5,060 at June 30, 2008. The System was closed to all new employees hired after October 1, 1994, except public safety bargaining unit employees. Inactive members, including retirees and beneficiaries, increased from 4,997 at June 30, 2007 to 5,306 at June 30, 2008 and the number of former members with vested rights increased from 498 to 505.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM

A. Funding Method

The funding method used for the System's valuation is the "projected unit credit" actuarial cost method. The objective of this method is to allocate the total pension benefit to which each participant is expected to become entitled at retirement to the participant's past and future service. The allocation is accomplished by applying the plan's accrual formula to projected final salary at retirement. An actuarial liability is calculated at the valuation date as the present value of benefits allocated to service prior to that date. The unfunded actuarial liability at the valuation date is the excess of the actuarial liability over the assets of the System.

B. Actuarial Value of Assets

The actuarial value of assets is used for purposes of determing the County's contribution to the System. The asset adjustment method dampens the volatility of asset values that could occur because of short term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process. Assets are valued at market value but with a phase-in of investment gains and losses arising after July 1, 1994, over a 5-year period. The gains and losses are net of expenses. Effective July 1, 1997, the calculation of the actuarial value of assets does not include the present value of accrued contributions.

ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM

A. Demographic Assumptions

1. Mortality

RP2000 projected 10 years, separate tables for males and females
Annual Deaths per 1,000 Members

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	0	0	65	11	9
25	0	0	70	19	16
30	0	0	75	33	26
35	1	0	80	58	43
40	1	1	85	103	73
45	1	1	90	176	128
50	2	1	95	262	191
55	3	3	100	341	235
60	6	5	105	398	293

2. Termination of Employment (prior to retirement eligibility)

Annual Terminations per 1,000 Members

Years of Service	Non-Public Safety	Public Safety
0 – 4	35	80 – 29
5 – 9	35	22 – 14
10 – 14	17	13 – 6
15 – 19	17 – 11	5 – 3
20 – 25	11 – 6	2
26+	6	NA

It is assumed that 15% of all vested participants who terminate elect to receive a refund of their contributions with interest instead of a deferred benefit regardless of their age when they terminate employment.

3. Disability

	Annual Disabilities per 1,000 Members			
	Non-Public Safety Employees		Public Safety Employees	
Age	**Male**	**Female**	**Male**	**Female**
20	1	1	1	1
25	2	1	3	3
30	2	2	6	8
35	3	3	8	12
40	3	3	10	16
45	6	3	19	22
50	7	5	32	29
55	5	6	39	31
60	9	6	47	32
65	0	0	0	0

4. Deaths

	Annual Deaths per 1,000 Disabled Members	
Age	**Male**	**Female**
20	0	0
25	0	0
30	1	0
35	1	1
40	2	1
45	2	2
50	4	3
55	7	5
60	13	10
65	22	17

5. Retirement

Age	Non-Public Safety Employees	Public Safety Employees Other than Group G
Under 40	0%	3%
41	0%	3%
42	0%	3%
43	0%	3%
44	0%	3%
45	1%	3%
46	1%	20%
47	1%	20%
48	1%	20%
49	1%	20%
50	5%	30%
51	5%	30%
52	5%	30%
53	5%	30%
54	5%	30%
55	20%	75%
56	20%	75%
57	20%	75%
58	20%	75%
59	20%	75%
60	15%	100%
61	15%	100%
62	15%	100%
63	15%	100%
64	15%	100%
65	50%	100%
66	50%	100%
67	75%	100%
68	100%	100%
69	100%	100%
70	100%	100%

Note: Rates apply only when an employee is eligible to retire based on age and service.

6. Sick Leave Credit

Sick leave: Service credit is increased by 2.5% to account for additional credit from unused sick leave. Sick leave is capped at 2 years.

7. Marital assumption

80% of active participants are assumed to be married. Women are assumed to be three years younger than their spouses**.**

8. Assumption Changes

In October 2005, the System's actuary, Mercer Human Resource Consulting completed an experience study of the actuarial assumptions used for the five-year period ending June 30, 2005. All recommended assumptions were approved by management at that time.

B. Economic Assumptions

1. Investment Return: 8.0% compound per annum
2. Cost-of-Living Increases: 3.5% compound per annum
3. Increase in Social Security Wage Base: 4.5% compound per annum
4. Expense load: Anticipated administrative expense equal to the average of the prior three years of administrative expenses. For FY2010 this figure is $2,300,000.
5. Salary Increase: Merit and promotional increases assumed to be based on age as shown below:

Age	Salary Scale
18 – 34	7.50%
35 – 44	6.50%
45 onwards	4.75%

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	2005	2006	2007	2008
Investment gain (loss)	$ (80,722,008)	$ (20,801,336)	$ 84,209,271	$ 47,850,027
Combined liability experience	(57,173,555)	(62,484,214)	(27,653,662)	(33,474,433)
Gain (loss) during year	$ (137,895,563)	$ (83,285,550)	$ 56,555,609	$ 14,375,594

SOLVENCY TEST

Aggregate Accrued Liability

Valuation Date	(1) Active Members Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilitities Covered by Reported Assets (1)	(2)	(3)
6/30/2002	$ 146,500,545	$ 1,125,070,362	$ 1,001,608,309	$ 2,036,100,709	100 %	100 %	76 %
6/30/2003	155,686,014	1,247,359,872	1,008,446,838	2,029,314,438	100	100	62
6/30/2004	160,523,789	1,354,272,329	1,046,532,114	2,045,098,796	100	100	51
6/30/2005	166,078,802	1,426,030,001	1,182,938,609	2,100,532,623	100	100	43
6/30/2006	177,391,695	1,578,703,590	1,162,240,788	2,222,724,295	100	100	40
6/30/2007	187,104,227	1,661,692,386	1,251,841,110	2,469,933,200	100	100	50
6/30/2008	186,171,030	1,847,516,034	1,307,862,361	2,701,119,470	100	100	51

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 1, 2002	**3,785**	**330**	**4,115**
New retirements & disabilities	336	0	336
Deaths with beneficiaries	(30)	30	0
Deaths/benefits ended	(71)	(10)	(81)
July 1, 2003	**4,020**	**350**	**4,370**
New retirements & disabilities	304	0	304
Deaths with beneficiaries	(26)	26	0
Deaths/benefits ended	(99)	(16)	(115)
July 1, 2004	**4,199**	**360**	**4,559**
New retirements & disabilities	216	0	216
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(99)	(11)	(110)
July 1, 2005	**4,296**	**369**	**4,665**
New retirements & disabilities	266	0	266
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(57)	(26)	(83)
July 1, 2006	**4,483**	**365**	**4,848**
New retirements & disabilities	242	0	242
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(67)	(26)	(93)
July 1, 2007	**4,636**	**361**	**4,997**
New retirements & disabilities	382	0	382
Deaths with beneficiaries	(28)	28	0
Deaths/benefits ended	(64)	(9)	(73)
July 1, 2008	**4,926**	**380**	**5,306**

SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30

	New Retirees and Disableds		Survivors		Total	
July 2002	**$**	**95,811,223**	**$**	**4,013,991**	**$**	**99,825,214**
Average Annual Allowance		25,313		12,164		24,259
Annual Allowances Added to the Rolls		11,401,243		551,410		11,952,653
Annual Allowances Removed From the Rolls		(1,479,300)		(159,196)		(1,638,496)
July 2003	**$**	**105,733,166**	**$**	**4,406,205**	**$**	**110,139,371**
Average Annual Allowance		26,302		12,589		25,204
Annual Allowances Added to the Rolls		11,570,789		572,318		12,143,107
Annual Allowances Removed From the Rolls		(2,180,663)		(308,637)		(2,489,300)
July 2004	**$**	**115,123,292**	**$**	**4,669,886**	**$**	**119,793,178**
Average Annual Allowance		27,417		12,972		26,276
Annual Allowances Added to the Rolls		10,396,825		797,535		11,194,360
Annual Allowances Removed From the Rolls		(1,963,577)		(313,742)		(2,277,319)
July 2005	**$**	**123,556,540**	**$**	**5,153,679**	**$**	**128,710,219**
Average Annual Allowance		28,761		13,967		27,591
Annual Allowances Added to the Rolls		14,424,755		305,259		14,730,014
Annual Allowances Removed From the Rolls		(1,611,828)		(127,575)		(1,739,403)
July 2006	**$**	**136,369,467**	**$**	**5,331,363**	**$**	**141,700,830**
Average Annual Allowance		30,419		14,606		29,229
Annual Allowances Added to the Rolls		10,498,059		580,630		11,078,089
Annual Allowances Removed From the Rolls		(2,335,705)		(478,216)		(2,813,321)
July 2007	**$**	**144,531,821**	**$**	**5,433,777**	**$**	**149,965,598**
Average Annual Allowance	$	31,176	$	15,052	$	30,011
Annual Allowances Added to the Rolls	$	20,518,024	$	1,056,444	$	21,574,468
Annual Allowances Removed From the Rolls	$	(2,344,133)	$	(422,864)	$	(2,766,997)
July 2008	**$**	**162,705,712**	**$**	**6,067,357**	**$**	**168,773,069**
Average Annual Allowance	**$**	**33,030**	**$**	**15,467**	**$**	**31,808**

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll[a]	Annual Average Pay	% Increase in Average Pay
July 1, 2002	5,983	$333,449,862	$55,733	5.333%
July 1, 2003	5,876	$336,019,788	$57,185	2.606%
July 1, 2004	5,670	$341,629,327	$60,252	5.363%
July 1, 2005	5,628	$355,105,993	$63,096	4.721%
July 1, 2006	5,362	$357,361,131	$66,647	5.627%
July 1, 2007	5,294	$374,792,608	$70,796	6.225%
July 1, 2008	5,060	$376,002,332	$74,309	4.962%

(a) Total payroll for active participants under retirement age was used for years prior to July 1, 2002. Beginning July 1, 2002 payroll for all active participants was used.

STATISTICAL SECTION

Employees' Retirement System

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN NET ASSETS
JUNE 30, 2008
LAST TEN FISCAL YEARS
(dollars in thousands)

	1999	2000	2001	2002	2003
Additions					
Member contributions	$ 10,477	$ 10,924	$ 11,292	$ 12,944	$ 14,770
Employer contributions	47,463	44,347	43,345	39,168	55,206
Investment income (loss) (net of expenses)	165,710	135,338	(81,375)	(124,177)	82,174
Total additions	223,650	190,609	(26,738)	(72,065)	152,150
Deductions					
Benefit payments	71,473	76,387	78,434	85,323	100,381
Refunds	828	861	1,067	681	739
Administrative expenses	1,297	1,220	1,689	2,092	2,007
Total deductions	73,598	78,468	81,190	88,096	103,127
Change in net assets	$ 150,052	$ 112,141	$ (107,928)	$ (160,161)	$ 49,023

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE
JUNE 30, 2008
LAST TEN FISCAL YEARS
(dollars in thousands)

	1999	2000	2001	2002	2003
Type of Benefit					
Service benefits:					
Retirees	$ 49,533	$ 53,463	$ 58,415	$ 64,030	$ 77,009
Survivors	3,100	3,188	3,785	4,041	4,811
Disability benefits	13,624	14,717	16,234	17,251	18,560
Total benefits	$ 66,257	$ 71,368	$ 78,434	$ 85,322	$ 100,380
Refund of Contributions	$ 828	$ 861	$ 1,067	$ 681	$ 739

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

2004	2005	2006	2007	2008
$ 14,762	$ 15,326	$ 16,085	$ 16,362	$ 18,851
61,927	74,655	88,184	109,436	117,686
286,895	197,433	187,004	420,847	(81,746)
363,584	287,414	291,273	546,645	54,791
111,646	115,635	125,818	136,833	147,027
796	762	635	793	673
2,066	1,857	1,920	2,431	2,557
114,508	118,254	128,373	140,057	150,257
$ 249,076	$ 169,160	$ 162,900	$ 406,588	$ (95,466)

2004	2005	2006	2007*	2008
$ 87,123	$ 102,641	$ 112,210	$ 98,653	$ 105,369
5,032	2,087	1,483	5,952	6,723
19,491	10,907	12,125	32,228	34,935
$ 111,646	$ 115,635	$ 125,818	$ 136,833	$ 147,027
$ 796	$ 762	$ 635	$ 793	$ 673

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND THREE YEARS AGO
JUNE 30, 2008

	2008		2005*	
Participating Government	**Covered Employees**	**Percentage of Total System**	**Covered Employees**	**Percentage of Total System**
Montgomery County	4,880	96.2%	5,419	96.2%
Town of Chevy Chase	5	0.1%	5	0.1%
Strathmore Hall	7	0.1%	7	0.1%
Housing Opportunities Commission	140	2.8%	159	2.8%
Revenue Authority	14	0.3%	17	0.3%
Washington Suburban Transit Commission	1	0.1%	2	0.1%
Montgomery County Employees Federal Credit Union	8	0.2%	8	0.2%
State Department of Assessment and Taxation	3	0.1%	6	0.1%
District Court	2	0.1%	5	0.1%
Total	5,060	100%	5,628	100%

*The information for principal participating employers is not available for 2004 and prior.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
JUNE 30, 2008

Fiscal Year	Retiree	Disability	Survivor	Total
1999	2,763	694	278	3,735
2000	2,831	734	304	3,869
2001	2,918	759	312	3,989
2002	3,002	783	330	4,115
2003	3,203	817	350	4,370
2004	3,348	851	360	4,559
2005	3,443	853	369	4,665
2006	3,564	919	365	4,848
2007*	3,661	975	361	4,997
2008	3,905	1,021	380	5,306

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT AMOUNTS
JUNE 30, 2008

Fiscal Year	Retiree	Disability	Survivor	Total
1999	$17,927	$19,632	$11,152	$17,740
2000	18,885	20,050	10,488	18,446
2001	20,019	21,389	12,132	19,663
2002	21,329	22,031	12,247	20,734
2003	24,043	22,717	13,747	22,970
2004	26,022	22,904	13,978	24,489
2005	29,812	12,786	5,655	24,788
2006	31,484	13,193	4,063	25,953
2007*	26,947	33,055	16,487	27,383
2008	26,983	34,216	17,692	27,710

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT
AS OF JUNE 30, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement [a]			Option Selected [b]					
		1	2	3	1	2	3	4	5	6
Deferred	505									
$ 1 – $ 250	192	164	24	4	104	45	30	2	7	4
251 – 500	303	236	58	9	167	68	56	1	4	7
501 – 750	268	213	45	10	145	59	44	5	6	9
751 – 1,000	312	234	48	30	149	65	61	10	12	15
1,001 – 1,250	316	230	48	38	147	74	67	8	5	15
1,251 – 1,500	285	200	34	51	116	71	56	10	11	21
1,501 – 1,750	296	216	28	52	125	76	53	15	11	16
1,751 – 2,000	251	180	17	54	108	61	41	17	7	17
Over 2,000	3,083	2,232	78	773	1,084	1,007	234	270	82	406
Total	5,811	3,905	380	1,021	2,145	1,526	642	338	145	510

Notes:

[a] Type of retirement:

1—Retiree
2—Beneficiary
3—Disabled Retiree

[b] Option selected:

Option 1—Modified Cash Refund
Option 2–-Certain and Continuous
Option 3—Life Annuity
Option 4—Joint and Survivor 50%
Option 5—Joint and Survivor 100%
Option 6—Other Joint and Survivor Percentage

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT PAYMENTS AND AVERAGE FINAL VALUATION PAY
LAST SEVEN FISCAL YEARS

	Years Credited Service						
	0 – 5	**5 – 10**	**10 – 15**	**15 – 20**	**20 – 25**	**25 – 30**	**30 +**
Retirement Effective Dates							
Period 7/1/2001 to 6/30/2002							
Average monthly benefit*	$ -	$ 1,206	$ 1,622	$ 1,534	$ 2,196	$ 3,587	$ 3,676
Average final valuation pay**	$ -	$ 42,726	$ 52,332	$ 59,283	$ 58,039	$ 72,284	$ 67,564
Number of retired members***	-	7	22	24	28	58	39
Period 7/1/2002 to 6/30/2003							
Average monthly benefit*	$ 2,701	$ 1,623	$ 1,413	$ 1,737	$ 1,833	$ 3,490	$ 3,750
Average final valuation pay**	$ 44,695	$ 44,840	$ 56,082	$ 59,937	$ 56,253	$ 71,048	$ 68,955
Number of retired members***	1	7	29	35	28	91	79
Period 7/1/2003 to 6/30/2004							
Average monthly benefit*	$ 1,156	$ 915	$ 1,809	$ 1,420	$ 2,549	$ 3,406	$ 4,337
Average final valuation pay**	$ 37,309	$ 45,048	$ 55,552	$ 60,530	$ 65,550	$ 65,919	$ 72,119
Number of retired members***	2	4	15	43	34	69	79
Period 7/1/2004 to 6/30/2005							
Average monthly benefit*	$ 2,521	$ 1,984	$ 1,479	$ 1,870	$ 2,573	$ 3,371	$ 4,392
Average final valuation pay**	$ 48,620	$ 50,470	$ 59,743	$ 63,910	$ 64,026	$ 72,618	$ 75,577
Number of retired members***	2	4	21	37	23	35	66
Period 7/1/2005 to 6/30/2006							
Average monthly benefit*	$ 2,491	$ 2,801	$ 1,752	$ 2,356	$ 2,928	$ 3,649	$ 4,594
Average final valuation pay**	$ 43,375	$ 55,641	$ 55,619	$ 67,299	$ 68,683	$ 73,731	$ 77,143
Number of retired members***	2	6	28	58	49	55	50
Period 7/1/2006 to 6/30/2007							
Average monthly benefit*	$ 2,760	$ 2,115	$ 2,163	$ 2,425	$ 3,100	$ 3,744	$ 4,438
Average final valuation pay**	$ 48,664	$ 58,211	$ 72,411	$ 74,925	$ 80,599	$ 79,607	$ 76,689
Number of retired members***	1	4	18	40	27	37	39
Period 7/1/2007 to 6/30/2008	$ 2,994	$ 3,061	$ 1,180	$ 2,287	$ 2,927	$ 3,466	$ 4,330
Average monthly benefit*	$ 50,803	$ 66,024	$ 62,986	$ 73,335	$ 78,696	$ 74,908	$ 74,647
Average final valuation pay**	1	8	18	58	60	57	87
Number of retired members***							

* Based on current benefits only. Does not take into account any future benefits.
** Pay used for last valuation (when member was an active employee).
*** Only includes participants who changed from active to retiree status.

SCHEDULE OF PARTICIPATING AGENCIES AND POLITICAL SUBDIVISIONS

Town of Chevy Chase
Strathmore Hall Foundation, Inc.
Housing Opportunities Commission of Montgomery County
Montgomery County Revenue Authority
Washington Suburban Transit Commission
Montgomery County Employees Federal Credit Union
Independent Fire/Rescue Corporations

Certain employees of the:
  State Department of Assessments and Taxation
  District Court of Maryland