SRPS

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

Comprehensive Annual Financial Report

Maryland State Retirement and Pension System
A Pension Trust Fund of the State of Maryland
For the Year Ended June 30, 2010

2010

MISSION STATEMENT

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

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

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

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

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

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

Comprehensive Annual Financial Report

Maryland State Retirement and Pension System

A Pension Trust Fund of the State of Maryland

For the Year Ended June 30, 2010

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

Introductory Section:

Financial Section:

Investment Section:

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

state retirement agency
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
TDD/TTY 410-625-5535
www.sra.state.md.us

December 15, 2010

Dear Members, Retirees and Beneficiaries:

On behalf of the Board of Trustees, we are pleased to present the Comprehensive Annual Financial Report of the Maryland State Retirement and Pension System for the fiscal year ended June 30, 2010. This report provides information on the financial status of the retirement system and highlights important milestones that occurred during that period.

The fiscal year ended with the system's portfolio earning 14.03% on investments, raising assets to $31.92 billion—an increase of $3.3 billion over the previous year. This growth exceeded the 7.75 percent actuarial earnings assumption for the fiscal year and exceeded the system's policy benchmark by 2.22 percent net of fees. This represents an impressive turnaround from last year's 20 percent loss that was brought about by the credit crisis and severe decline of the global economy.

One reminder of the economic downturn in 2009 was the sharp drop in inflation which would have resulted in an unprecedented negative cost of living adjustment (COLA) of -0.356 percent for retirees and beneficiaries beginning July 1, 2010. Instead, Governor Martin O'Malley signed into law legislation passed by the 2010 General Assembly keeping benefits unchanged for the year with a plan to deduct the negative cost of living adjustment that would have gone into effect from the positive COLA expected in fiscal year 2012.

The Legislature also established the creation of the Public Employees' and Retirees' Benefit Sustainability Commission during the 2010 session to study and make recommendations on all aspects of state-funded benefits and pensions provided to state employees and teachers, active and retired. The commission will issue an interim report of its findings and recommendations by December 2010 and a final report by the summer of 2011.

Following several years of planning, the antiquated Legacy Pension System (LPS) was replaced with the Maryland Pension Administration System (MPAS-1), a more efficient and agile system that is easier to manage and maintain retirement accounts. The new system will enable the Retirement Agency to more efficiently maintain and update its data base, such as when the Legislature enacts changes to pension law. Furthermore, it provides a foundation to create new features in the future for use by active and retired members.

Finally, the system's revamped website was launched, offering a cleaner and updated look that is more navigable and provides better service to the members of the system and other stakeholders. Content has been reorganized to be more task-oriented with close attention to context and relevance.

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

Sincerely,

Nancy K. Kopp

NANCY K. KOPP
Chairman

Peter Franchot

PETER FRANCHOT
Vice Chairman

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

state retirement agency
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
TDD/TTY 410-625-5535
www.sra.state.md.us

LETTER OF TRANSMITTAL

December 15, 2010

Honorable Chairman & Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report for the Maryland State Retirement and Pension System (the "System") for the fiscal year ended June 30, 2010. We believe this report fairly presents the operating results achieved during this 12-month reporting period.

The System is responsible for properly administering retirement, disability, and death benefits. At the same time, it strives to keep employer contribution rates as reasonable as possible by maximizing investment returns while maintaining an acceptable level of risk. Members covered by the plans include State employees, teachers, law enforcement officers, legislators, judges, as well as local government employees, law enforcement officers, and correctional personnel whose employers have elected to participate in the System.

The System currently provides monthly allowances to more than 120,000 retirees and beneficiaries, and is an essential element of the future financial security for over 197,000 active participating members. Descriptions of the membership requirements and benefits provided by each plan administered by the System are included in the Plan Summary Section starting on page 106.

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

INVESTMENTS

The System's investment portfolio returned 14.03 percent in fiscal year 2010, well above the System's actuarially determined target investment return of 7.75 percent, net of expenses. The market value of assets increased by approximately $3.3 billion, from $28.5 billion on June 30, 2009 to $31.9 billion on June 30, 2010. All of the System's major asset classes produced positive returns for the year and nearly all performed above their assigned benchmarks.

The System's target asset allocation as of the end of fiscal year 2010 was 36% public equities, 15% fixed income, 10% private equities, 10% credit/debt strategies, 10% real estate, 10% real return, 7% absolute return and 2% cash. The System's investment outlook is long term, allowing the portfolio to take advantage of equity-linked asset classes. The portfolio is globally diversified and structured in a risk controlled manner.

MAJOR ISSUES AND INITIATIVES

Regardless of the economic events and market volatility of the last couple of years, the System remains financially sound and committed to its long term funding goals. However, the Board of Trustees continues to be deeply concerned with the methodology used to calculate annual employer contributions to the trust fund for the two largest systems: State Employees' and Teachers'. The Board remains committed to its recommendation to cease this Corridor Funding Method, and thereby eliminate the impact this methodology is having on the System's funded status. Under the Corridor Funding Method, contribution rates for the two largest systems are fixed from year to year as long as the funded status for each of these systems remains in a "corridor" of 90% to 110%.

Primarily, as a result of the investment losses recognized during fiscal year 2009 and the impact of corridor funding on contributions, the System's funded ratio decreased from 78.62% at June 30, 2008 to 65.02% at June 30, 2009. Notwithstanding the 14.03% earnings in fiscal year 2010, the funded ratio continued its decline to 64.14% at June 30, 2010.

Under the leadership of the System's Chief Investment Officer, implementation of the asset allocation adopted by the Board of Trustees in September 2008 has continued to proceed successfully. Consequently, System investments in international equity, global equity and alternative investments have increased. Further information regarding the System's investment program can be found in the Chief Investment Officer's letter located in the Investment Section of this report.

In benefits administration, the Agency continues its program to provide employer education and training to participating employers. The Agency continues its development of the Maryland Pension Administration System (MPAS) project. MPAS is being developed in phases. The goal of the first phase, implemented in July 2010, was to create new, agile technology architecture as a platform for future improvements.

FINANCIAL INFORMATION

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

ACCOUNTING SYSTEM AND REPORTS

The System reports its transactions on the accrual basis of accounting. Under this method, revenues are reported in the accounting period they are earned and become measurable, and expenses are reported when the related liability is incurred and measurable. Investments are reported at fair value at fiscal year end. Investment purchases and sales are reported in the accounting period in which the related trade dates occur.

REVENUES

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2010, investment earnings were $4.0 billion, while revenues from employer and member contributions were $1.3 billion and $535 million, respectively. For fiscal year 2010, member contribution rates were 5%, while employer rates varied depending on the system.

EXPENSES

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of System operations. Payments to retirees, beneficiaries and transferring of withdrawing members and employers continued to be the System's primary disbursements during 2010 totaling $2.4 billion. In addition, the System disbursed $220.3 million to manage the investment portfolio and to administer the System, of which $191.7 million was paid for investment management, portfolio custody, and securities lending services and $28.6 million used to fund the System's administrative operations.

FUNDING

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

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

At June 30, 2010, the System's actuarial accrued liability was $54.1 billion and the unfunded actuarial accrued liability totaled $19.4 billion, resulting in a funded status ratio of 64.14%. The portion of the unfunded actuarial accrued liability that existed at June 30, 2000 will continue to be amortized over the remaining 10-year period to June 30, 2020, whereas each subsequent annual liability layer will be amortized over a 25-year period.

PROFESSIONAL SERVICES

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board of Trustees in carrying out its fiduciary responsibility to efficiently and effectively manage the System. Actuarial services were provided by Gabriel Roeder Smith & Company and independent financial statement audit services were provided by SB & Company, LLC. The System's asset custody and portfolio accounting services were provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. Ennis Knupp & Associates serves as the System's general investment consultant. Specialty consulting services are provided by Altius Associates Limited and Pension Consulting Alliance Real Estate Advisors, Inc. for private equity and real estate, respectively. A complete listing of the System's professional consultants and external investment advisors is presented on page 11.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Maryland State Retirement and Pension System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the twenty-first consecutive year (1989 through 2009) that it has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additionally, the Maryland State Retirement and Pension System received the Public Pension Coordinating Council's (PPCC) 2010 Recognition Award for Administration, in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

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

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

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

ACKNOWLEDGMENTS

This annual report reflects the dedicated efforts of the System's staff under the steady direction of the Board of Trustees. We extend our sincere gratitude to each member of the Board, the System's staff, the Board's advisors and the many people who worked with diligence and dedication throughout 2010.

R. Dean Kenderdine
Executive Director
Secretary to the Board

Melody Countess, CPA
Chief Operating Officer

BOARD OF TRUSTEES

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

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

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

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

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

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

JAMES M. HARKINS
July 1, 2006 - June 30, 2014
Chairman, Administative Committee
Member, Audit Committee

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

BOARD OF TRUSTEES

F. Patrick Hughes
July 1, 2003 - June 30, 2013
Chairman, Audit Committee
Member, Investment Committee

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

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

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

Harold Zirkin
September 10, 2007 - June 30, 2011
Member, Investment Committee
Member, Audit Committee

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

ADVISORS TO THE INVESTMENT COMMITTEE

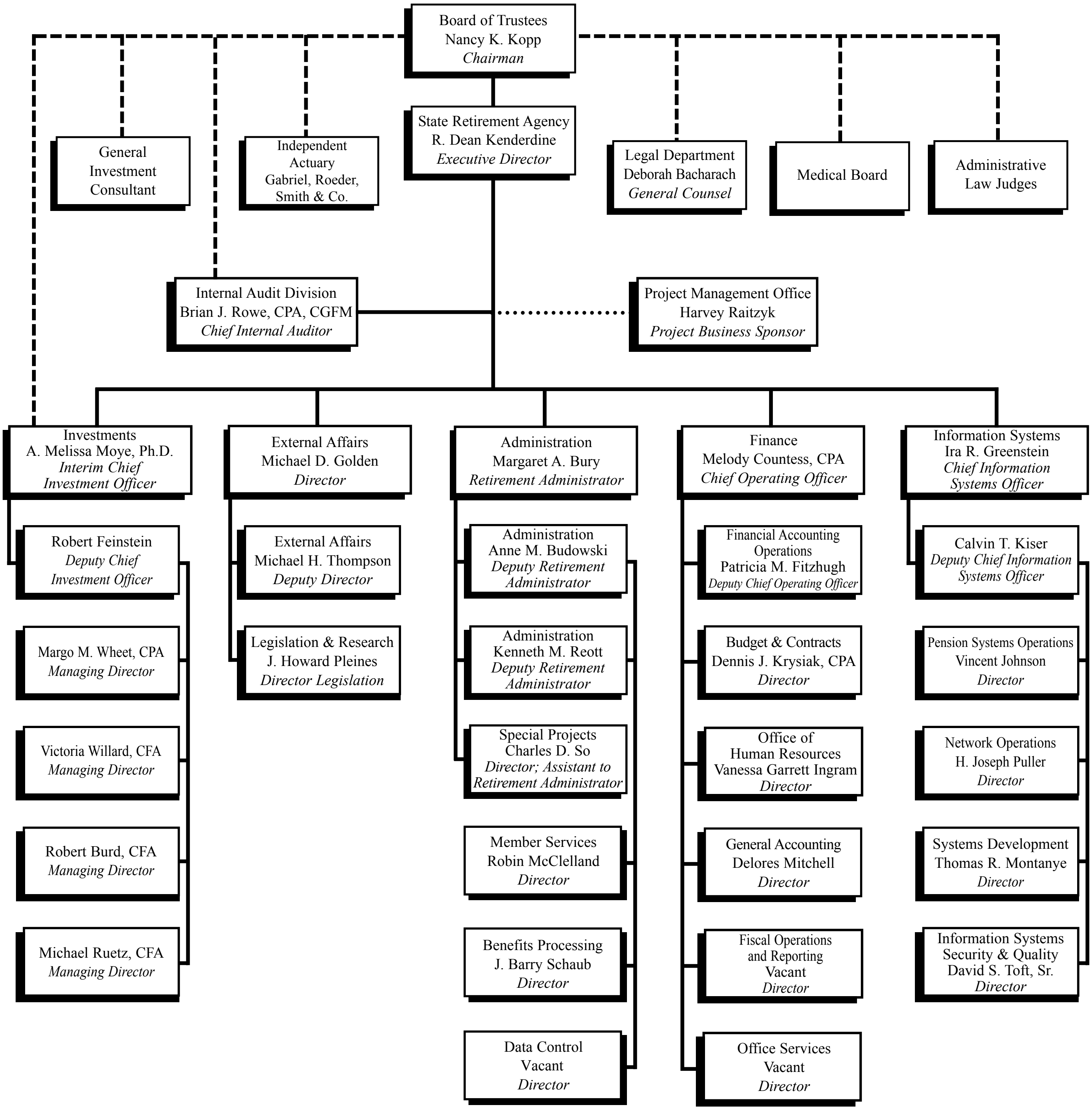
Larry E. Jennings, Jr.

Wayne H. Shaner

Brian B. Topping

ORGANIZATIONAL CHART

(November, 2010)



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

PROFESSIONAL SERVICES

Asset & Income Verification Services

Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

Global Custodial Bank & Security Lending

State Street Bank and Trust Company
Boston, Massachusetts

Hearing Officers

Office of Administrative Hearings
Baltimore, Maryland

Independent Actuary

Gabriel Roeder Smith & Company
Southfield, Michigan

Independent Auditor

SB & Company, LLC
Hunt Valley, Maryland

Independent Investment Consultants

Altius Associates Limited
Richmond, Virginia

Hewitt Ennis Knupp
Chicago, Illinois

Pension Consulting Alliance
Encino, California

Medical Board

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

Operational Banking Services

M & T Bank
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

System Development

Saber Software Inc.
Vancouver, Washington

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Retirement and Pension System of Maryland

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council

Recognition Award for Administration
2010

Presented to

Maryland State Retirement and Pension System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Alan H. Winkle
Program Administrator

This page intentionally left blank

Financial Section

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Maryland State Retirement and Pension System

We have audited the accompanying basic financial statement of Plan net assets of the Maryland State Retirement and Pension System (the System), a fiduciary fund of the State of Maryland, as of June 30, 2010, and the related statement of changes in Plan net assets for the year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the System as of and for the year ended June 30, 2009, were audited by other auditors whose report dated November 16, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, the 2010 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of June 30, 2010, and the changes in its plan net assets, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, schedule of funding progress, and schedule of contributions from employers and other contributing entity, as listed in the table of contents, are not a required part of the basic 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 we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, other supplementary information, investment section, actuarial section, statistical section, and plan summary section, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section, statistical section, and plan summary section 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.

SB & Company, LLC

Hunt Valley, Maryland
November 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

To help facilitate a better understanding of the Maryland State Retirement and Pension System's (the "System") financial condition as of June 30, 2010, the results of its operations for the fiscal year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the System's audited financial statements and, as such should be read in conjunction with these statements, which are presented beginning on page 22.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Finally, the other supplementary schedules, presented immediately after the required supplementary information, summarize the changes in fund balances, disclose major categories of operating and investment expenses and provide combining, plan-level detail related to asset, liability, income and expense amounts summarized in the basic financial statements.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer and member contributions as well as earning an adequate long-term rate of return on its investments are essential components of the System's plan for accumulating the funds needed to finance future retirement benefits.

Fiscal Year 2010 compared to 2009

The following Condensed Comparative Statement of Net Assets for the fiscal years ended June 30, 2010 and 2009, presents an increase in System net assets of $3.4 billion (11.7%). This increase is primarily attributable to strong performance in stocks, fixed income and alternative investments for most of the fiscal year 2010. Positive performance, on a more modest scale, was experienced in real estate and cash & cash equivalents. Additional information on our investment activities in 2010 can be found in the Investment Section.

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

	June 30,		Change	
	2010	**2009**	**Amount**	**%**
Cash & cash equivalents	$1,630.3	$ 3,360.9	$ (1,730.6)	-51.5%
U.S. Government obligations	3,183.2	1,828.8	1,354.4	74.1%
Domestic corporate obligations	3,159.6	3,656.1	(496.5)	-13.6%
International obligations	919.6	66.5	853.1	1282.9%
Domestic stocks	7,760.2	8,593.2	(833.0)	-9.7%
International stocks	8,234.8	7,912.6	322.2	4.1%
Mortgages & mortgage related securities	1,670.3	2,178.3	(508.0)	-23.3%
Real estate	396.1	338.5	57.6	17.0%
Alternative investments	5,047.1	1,655.0	3,392.1	205.0%
Total managed investments	32,001.2	29,589.9	2,411.3	-8.1%
Collateral for loaned securities	4,630.2	5,017.1	(386.9)	-7.7%
Total investments and cash & cash equivalents	36,631.4	34,607.0	2,024.4	5.8%
Receivables	1,052.4	589.7	462.7	78.5%
Total Assets	37,683.8	35,196.7	2,487.1	7.1%
Liabilities	5,760.3	6,626.3	(866.0)	-13.1%
Total Net Assets, End of Year	31,923.5	$28,570.4	$3,353.1	11.7%

As depicted in the following Comparative Statement of Changes in Net Assets for fiscal years 2010 and 2009, contributions to the plan during fiscal year 2010 increased as a result of the impact of the fiscal year 2008 declining market performance and investment losses on employer contribution rates for fiscal year 2010. The strong performance of the System's investments during fiscal year 2010 produced a positive weighted average investment return of 14.03%. As a result, the System recognized $4 billion in net investment income. Additionally, the System continues to pay out more benefits than contributions collected. An increase of $166.4 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries during FY10. However, the 7.7% increase in total deductions during fiscal year 2010 was primarily attributable to increased efforts by the Agency to refund accumulated contributions to inactive, non-vested members using the Internal Revenue Service's Letter Forwarding Program.

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

	June 30,		Change	
	2010	**2009**	**Amount**	**%**
Employer contributions	$ 504.7	$ 443.5	$ 61.2	13.8%
Member contributions	535.6	532.1	3.4	0.6%
Other & contribution interest	804.2	666.0	138.2	20.8%
Net investment income (loss)	4,016.4	(7,355.9)	11,372.3	-154.6%
Total additions	5,860.9	(5,714.3)	11,575.2	202.6%
Benefit payments	2,445.6	2,279.1	166.5	7.3%
Refunds	33.5	22.3	11.2	50.2%
Administrative expenses	28.6	27.5	1.1	4.0%
Total deductions	2,507.7	2,328.9	178.8	7.7%
Net increase (decrease) in plan net assets	$ 3,353.2	$(8,043.2)	$ 11,396.4	-141.7%

Fiscal Year 2009 compared to 2008

The System's net assets at the end of 2009 decreased by $8,043 million (-22%) from the prior year's net asset balance. This decrease in net assets is primarily attributable to poor performance in the Domestic corporate obligations, Stocks, Alternative Investments and Real Estate markets for most of Fiscal Year 2009.

A schedule of the System's investments and changes (by type) from fiscal year 2008 to 2009 is as follows (expressed in millions):

	June 30,		Change	
	2009	**2008**	**Amount**	**%**
Cash & cash equivalents	$ 3,360.9	$ 1,737.6	$ 1,623.3	93.4%
U.S. Government obligations	1,828.8	1,080.0	748.8	69.3%
Domestic corporate obligations	3,656.1	6,893.3	(3,237.2)	-47.0%
International obligations	66.5	327.6	(261.1)	-79.7%
Domestic stocks	8,593.2	14,424.5	(5,831.3)	-40.4%
International Stocks	7,912.6	8,555.3	(642.7)	-7.5%
Mortgages & mortgage related securities	2,178.3	2,218.8	(40.5)	-1.8%
Real estate	338.5	505.9	(167.4)	-33.1%
Alternative investments	1,655.0	2,164.1	(509.1)	-23.5%
Total managed investments	29,589.9	37,907.1	(8,317.2)	-21.9%
Collateral for loaned securities	5,017.1	1,826.5	3,190.6	174.7%
Total investments and cash & cash equivalents	34,607.0	39,733.6	(5,126.6)	-12.9%
Receivables	589.7	873.4	(283.7)	-32.5%
Total Assets	35,196.7	40,607.0	(5,410.3)	-13.3%
Liabilities	6,626.3	3,993.3	2,633.0	65.9%
Total net assets	$28,570.4	$36,613.7	$(8,043.3)	-22.0%

The increase in System additions during fiscal year 2009 was primarily due to mandated increases to member contribution rates in the Employees' and Teachers' Retirement Enhancement Act of 2006. Declining financial markets significantly affected most of the economic sectors in which the System held investments during fiscal year 2009 producing a negative return of 20%. As a result, the System experienced a $7.4 billion net investment loss. Additionally, the System's continuance to pay out more in benefits than collected in contributions coupled with an increase of $158.6 million in benefits paid to retirees resulted in a 7.8% increase in total deductions during fiscal year 2009.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2008 to 2009 is as follows (expressed in millions):

	June 30,		Change	
	2009	**2008**	**Amount**	**%**
Employer contributions	$ 443.5	$ 443.2	$ 0.3	0.1%
Member contributions	532.1	420.5	111.6	26.5%
Other & contribution interest	666.0	604.8	61.2	10.1%
Net investment income	(7,355.9)	(2,139.7)	(5,216.2)	243.8%
Total additions	(5,714.3)	(671.2)	(5,043.1)	751.4%
Benefit payments	2,279.1	2,120.5	158.6	7.5%
Refunds	22.3	16.2	6.1	37.7%
Administrative expenses	27.5	23.1	4.4	19.0%
Total deductions	2,328.9	2,159.8	169.1	7.8%
Net increase (decrease) in plan net assets	$ (8,043.2)	$(2,831.0)	$(5,212.2)	184.1%

ANALYSIS OF FUNDED STATUS

The unfunded actuarial liability is being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Despite a positive investment returns in FY10, the carryover of prior year's losses in the development of June 30, 2010, actuarial asset value exceed the portion of FY10 gains recognized. As result, the June 30, 2010, actuarial valuation presents a decrease in the funded status of the System from 65.02% at June 30, 2009 to 64.14%.

In analyzing the System's overall funded status, it is important to remember that a retirement system's funding plan is based on a long time horizon, in which fluctuations in the market are expected. The more critical factor is that the System be able to meet the current actuarial assumed rate of return of 7.75%. A schedule of funding progress presenting multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits can be found on page 40. Additional information on the plan's funding progress is also presented in the Actuarial Section of this Comprehensive Annual Financial Report.

REQUESTS FOR INFORMATION

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

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF PLAN NET ASSETS
As of June 30, 2010 and 2009
(Expressed in Thousands)

	2010	2009
Assets:		
Cash & cash equivalents	$ 1,630,322	$ 3,360,915
Receivables:		
Contributions:		
Employers	14,895	11,514
Employers – long term	48,518	51,501
Members	7,584	9,085
Accrued investment income	340,171	48,715
Investment sales proceeds	641,276	468,873
Total receivables	1,052,444	589,688
Investments, at fair value:		
U.S. Government obligations	3,183,211	1,828,768
Domestic corporate obligations	3,159,516	3,656,103
International obligations	919,603	66,548
Domestic stocks	7,760,239	8,593,233
International stocks	8,234,789	7,912,626
Mortgages & mortgage related securities	1,670,334	2,178,258
Real estate	396,092	338,480
Alternative investments	5,047,137	1,655,023
Collateral for loaned securities	4,630,233	5,017,132
Total investments	35,001,154	31,246,171
Total assets	37,683,930	35,196,774
Liabilities:		
Accounts payable & accrued expenses	51,081	42,873
Investment commitments payable	1,077,127	1,564,457
Obligation for collateral for loaned securities	4,630,233	5,017,132
Other liabilities	1,852	1,838
Total liabilities	5,760,293	6,626,300
Net assets held in trust for pension benefits	$ 31,923,637	$28,570,474
(A schedule of funding progress is presented on page 40)		

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS
for the Fiscal Years Ended June 30, 2010 and 2009

(Expressed in Thousands)

	2010	2009
Additions:		
Contributions:		
Employers	$ 504,701	$ 443,524
Members	535,581	532,101
Other	801,273	656,333
Contribution interest	2,947	9,706
Total contributions	1,844,502	1,641,664
Investment income:		
Net appreciation in fair value of investments	3,331,348	(7,841,176)
Interest	310,597	312,877
Dividends	516,723	245,465
Real estate operating net income	20,890	21,600
Income before securities lending activity	4,179,558	(7,261,234)
Gross income from securities lending activity	28,485	34,255
Securities lending borrower rebates	(6,369)	(12,404)
Securities lending agent fees	(3,526)	(3,513)
Net income from securities lending activity	18,590	18,338
Total investment income	4,198,148	(7,242,895)
Investment expenses	(181,789)	(113,011)
Net investment income	4,016,359	(7,355,906)
Total additions	5,860,861	(5,714,242)
Deductions:		
Benefit payments	2,445,540	2,279,171
Refunds	33,531	22,324
Administrative expenses	28,627	27,499
Total deductions	2,507,698	2,328,994
Net increase(decrease) in plan assets	3,353,163	(8,043,236)
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	28,570,474	36,613,710
End of the fiscal year	$ 31,923,637	$ 28,570,474

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL DESCRIPTION OF THE SYSTEM

A. Organization

The State Retirement Agency (the "Agency") is the administrator of the State Retirement and Pension System of Maryland (the "System"). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 14-member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool". The "State Pool" consists of the State agencies, boards of education, community colleges and libraries. The "Municipal Pool" consists of the participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus, participating governmental units that elect to join the System (the "Municipal Pool") cost-share in the liabilities of the Municipal Pool only.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined by the codification of the Governmental Accounting Standards Board (GASB) for accounting for defined benefit pension plans. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System.

B. Covered Members

The Teachers' Retirement System was established on August 1, 1927 to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979 became members of the Teachers' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979 became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System. Currently, more than 100 governmental units participate in the Employees' Systems.

The State Police Retirement System was established on July 1, 1949 to provide retirement allowances and other benefits to any police employee or cadet of the Maryland State Police.

The Judges' Retirement System was established on June 30, 1969 to provide retirement allowances and other benefits for State and local, appointed, or elected judges.

The Law Enforcement Officers' Pension System was established on July 2, 1990 to provide retirement allowances and other benefits for certain State and local law enforcement officers. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those members who, on the date they elected to participate in this System, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating law enforcement officers.

The following table presents a summary of membership by system as of June 30, 2010, with comparative 2009 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	23,017	57,539	78,305	27,968	106,273
Employees' Retirement & Pension Systems*	28,477	58,893	62,979	24,412	87,391
Judges' Retirement System	6	351	294	-	294
State Police Retirement System	77	2,282	991	363	1,354
Law Enforcement Officers' Pension System	198	1,182	1,774	700	2,474
Totals as of June 30, 2010	51,775	120,247	144,343	53,443	197,786
Totals as of June 30, 2009	51,866	116,007	140,308	59,397	199,705

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

C. Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. Retirement allowances are computed using both the highest three years' average final compensation (AFC) and the actual number of years of accumulated creditable service. Pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors. A brief summary of the retirement eligibility requirements of and the benefits available under, the various systems follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of eligibility service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

A member of either the Teachers' or Employees' Pension System is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member of either the Teachers' or Employees' Pension System equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. However, the annual pension allowance for a member of the Employees' Pension System, who is employed by a participating governmental unit that does not provide the enhanced pension benefits, equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service. On April 25, 2006, new legislation was enacted with an effective date of July 1, 2006, that enhanced the pension benefits for active members, as of June 30, 2006, of the Pension System. According to the State Employees' and Teachers' Retirement Enhancement Benefit Act of 2006, the annual service retirement allowance remains equal to 1.2% of average final compensation times service credit to June 30, 1998 and increases to 1.8% of average final compensation times service credit from July 1, 1998 forward.

A member of the State Police Retirement System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22 years of eligibility service regardless of age. The annual retirement allowance equals 2.55% of the member's AFC multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFC.

A member of the Judges' Retirement System is eligible for full retirement benefits upon attaining age 60. The annual retirement allowance for a member with at least 16 years of accumulated creditable service equals 2/3 (66.7%) of the salary of an active judge holding a comparable position. The annual retirement allowance is prorated if the member retires with fewer than 16 years of accumulated creditable service.

A member of the Law Enforcement Officers' Pension System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equals 1/50 (2.0%) of the member's AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/100 (1.0%) of the member's AFC multiplied by the number of years of accumulated creditable service in excess of 30 years. For members subject to the pension provisions, full service pension allowances equal 2.0% of AFC up to a maximum benefit of 60% (30 years of credit).

Vested Allowances

Any member (other than a judge) who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Judges have no minimum service requirements prior to vesting. Legislators become eligible for a vested retirement allowance upon accumulating 8 years of eligibility services. A member who terminates employment prior to attaining retirement age and before accumulating 5 years of eligibility service receives a refund of all member contributions and interest.

Early Service Retirement

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

Disability and Death Benefits

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

Adjusted Retirement Allowances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Accordingly, investment purchases and sales are recorded as of their respective trade dates. Employer and Member contributions are recognized in the period when due, pursuant to statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. Investment Limitations

The State Personnel and Pensions Article of the Annotated Code of Maryland authorizes the System to invest plan assets in stocks, bonds, notes, certificates of indebtedness, mortgage notes, real estate, debentures or other obligations, subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension System of Maryland.

C. Portfolio Valuation Method

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

D. Derivatives

During the year ended June 30, 2010, the System adopted Governmental Accounting Standards Board codification of accounting standard, Accounting and Financial Reporting for Derivative Instruments, which addresses the recognition, measurement and disclosures of information regarding derivative instruments entered into by the System.

The System may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by Agency staff. Pursuant to such authority, the System invests in foreign currency forward contracts, options, futures, swaps, collateralized mortgage obligations, mortgage related securities, interest-only and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are generally used to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the System's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Additionally, mortgage related securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the System, which is the risk that the counterparty might be unable to meet its obligations.

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

E. Administrative and Investment Expenses

All of the System's administrative and investment expenses (e.g., salaries of Agency employees, investment advisory fees) are incurred centrally and charged to each individual retirement or pension system on the basis of its percentage ownership in the System's net assets. All of the System's administrative and investment expenses are funded from investment income.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2010 and 2009, the System qualified under Section 401(a) of the Internal Revenue Code and was exempt from federal income taxes under Section 501(a) of the Code.

G. Risks and Uncertainties

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying statements of net Plan assets.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. It is at least reasonably possible that changes in these assumptions in the near term could materially affect the amounts reported and disclosed in the accompanying financial statements.

H. Reclassification

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

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Legal Provisions

The Board of Trustees is required by Section 21-116 (c), State Personnel and Pensions Article, Annotated Code of Maryland (SPP), to establish and maintain an Investment Policy Manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to:

Type	Description	As of June 30, 2010 Strategic Target	Actual
Public Equity	Common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and Non-U.S. companies, wherever organized shares in investment funds and trusts may be purchased.	36%	51%
Cash Portfolio	Consisting of Money Market Funds, US Treasury Bills, Commercial Paper, Currency and other Short Term Investments.	2%	2%
Private Equity	Limited Partnerships	10%	3%
Real Estate	Consists of three components: (a) Domestic and Global Real Estate Investment Trusts (REITS); (b) Directly Owned Real Estate; and (c) Private Real Estate Funds.	10%	6%
Fixed Income	Fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.s. and non-U.S. companies, wherever organized, and supra-national organizations. Any limits are governed by the System's contract with each manager.	15%	19%
Absolute Return	This asset class may include an array of hedge fund strategies, including distressed debt, arbitrage managers, long/short market neutral managers as well as macro and multi strategy managers.	7%	4%
Real Return	This asset class may include: Treasury inflation protected securities, Global inflation-linked securities, Commodities, Energy related, infrastructure, natural resources and multi-asset class portfolios with a real return mandate.	10%	6%
Debt Related Strategies	Primarily made up of Distressed Debt, Credit LP Funds, Mezzanine Debt LP Funds, Public Private Funds, and Flexible Credit.	10%	3%

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

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

B. Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. All of the System's funds or deposits are covered by depository insurance, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the System's name and there are no legal or contractual provisions for deposits and investments. The System does not have any investments that are not registered in its name and are either held by the counterparty or the counterparty's trust department or agent, but not in the System's name.

The amount of the System's total cash and cash equivalents as of June 30, 2010, and June 30, 2009, was $1,630,332 and $3,360,915 *(in thousands)*, respectively.

C. Investments

These investments are accounted for as the System and are allocated to Teachers' Retirement and Pension, Employees' Retirement and Pension, Judges' Retirement, State Police Retirement and Law Enforcement Officers' Pension.

All investments are governed by the prudent person rule as described in SPP Section 21-203. A fiduciary shall discharge the fiduciary's duties with respect to the several systems solely in the interest of the participants and as follows with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; by diversifying the investments of the several systems.

Investment Restrictions – Defined by each investment manager's mandate, which is specified in their contract.

D. Interest Rate Risk

As of June 30, 2010, the System had the following fixed income investments listed by specific identifier with the exception of the Commingled Funds, which are based on their average maturity:

	Fair Value	**Investment Maturities (in years)**			
Investment Type:	**(in thousands)**	**Less than 1**	**1 thru 5**	**5+ thru 10**	**More than 10**
Alternative investments	$1,042,387	$ 403,508	$ 191,712	$ 447,167	$ -
Asset backed securities	212,709	975	74,407	34,485	102,842
CMBS 17,283	17,283	-	-	-	
Bond commingled funds	359,319	17,970	318,913	22,436	-
Collateralized mortgage obligations	430,722	-	6,006	24,738	399,978
Convertible bonds	36,310	3,919	18,692	4,660	9,039
Domestic corporate obligations	1,603,751	96,566	663,348	580,366	263,471
International obligations	896,864	110,282	264,213	243,533	278,836
Mortgage pass-throughs	1,234,143	95	6,347	56,522	1,171,179
Municipals	75,568	452	2,551	4,288	68,277
Options	402	611	(14)	-	(195)
Short term	1,507,015	1,507,015	-	-	-
Swaps	3,264	8,625	(1,106)	(1,433)	(2,822)
U.S. government agency	176,356	14,304	97,514	53,176	11,362
U.S. treasury bills	69,999	69,999	-	-	-
U.S. treasury bonds	700,251	-	1,142	19,287	679,822
U.S. treasury notes	2,220,402	210,443	1,090,554	837,580	81,825
U.S. treasury strips	16,426	-	-	2,444	13,982
Yankee bonds	364,025	14,175	202,976	100,672	46,202
Totals	$10,967,196	$2,476,222	$2,937,255	$2,429,921	$3,123,798

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

Examples of securities that would qualify as "highly interest rate sensitive" include interest only, principal only and inverse floaters, of which the System had no significant holdings as of June 30, 2010.

As of June 30, 2010, the System had $1.2 billion invested in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

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

Derivatives held as of June 30, 2010, are identified in greater detail in Note 4.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2010:

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

Rating	2009 Fair Value	Percentage Total Investments	2008 Fair Value	Percentage Total Investments
AAA	$ 2,638,441	8.265%	$ 3,553,069	12.436%
AA	288,434	0.904%	196,929	0.689%
A	2,187,246	6.851%	2,745,791	9.611%
BAA	96,834	0.303%	88,844	0.311%
BA	14,595	0.046%	18,353	0.064%
BBB	596,288	1.868%	604,826	2.117%
BB	136,785	0.428%	188,905	0.661%
B	170,921	0.535%	127,341	0.446%
CAA	34,133	0.107%	69,045	0.242%
CA	661	0.002%	594	0.002%
CCC	96,844	0.303%	79,252	0.277%
CC	20,569	0.064%	7,938	0.028%
C	1,027	0.003%	1,825	0.006%
D	8,047	0.025%	5,793	0.020%
NR	253,111	0.793%	527,707	1.847%

The System's policy regarding credit risk is determined by each investment manager's mandate. The above listed ratings are based on the most conservative rating offered by Moody's and Standard & Poor's. NR represents securities not rated; primarily made up of commingled funds, alternative investments and swaps, which by nature do not have credit quality ratings.

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2010:

International Investment Securities – At Fair Value as of June 30, 2010
(U.S. Dollars in Thousands)

Currency	Equity	Income	Fixed Income	Alternate Investments	Mutual Funds	Total
Australian Dollar	$ 405,826	$ 58,032	$3,076	$ -	$ -	$ 466,934
Brazilian Real	59,409	119	2,122	-	-	61,650
Canadian Dollar	465,401	50,506	2,082	-	-	517,989
Czech Koruna	5,661	-	91	-	-	5,752
Danish Krone	75,801	694	388	-	-	76,883
Egyptian Pound	1,093	-	-	-	-	1,093
Euro Curreny	1,776,002	520,249	14,783	253,380	-	2,564,414
Hong Kong Dollar	577,502	815	2,515	-	-	580,832
Hungerian Forint	1,005	-	2	-	-	1,007
Indonesian Rupish	21,115	-	19	-	-	21,134
Israeli Shekel	21,761	-	125	-	-	21,886
Japense Yen	1,272,499	60,308	10,671	-	-	1,343,478
Malaysian Ringgit	22,827	-	46	-	-	22,873
Mexican Peso	32,462	-	40	-	-	32,502
New Taiwan Dollar	733	-	10,622	-	-	11,355
New Turkis Lira	25,993	-	-	-	-	25,993
New Zealand Dollar	3,916	-	45	-	-	3,961
Norwegian Krone	56,656	-	374	-	-	57,030
Philippine Peso	3,401	-	32	-	-	3,433
Polish Zloty	7,257	18,630	3	-	-	25,890
Pount Sterling	1,222,340	185,481	5,960	79,886	-	1,493,667
Singapore Dollar	143,418	-	561	-	-	143,979
South African Rand	42,169	-	219	-	-	42,388
South Korean Won	144,753	-	169	-	-	144,922
Sweish Krona	167,829	23,922	475	-	-	192,226
Swiss Franc	491,021	95	617	-	-	491,733
Thailand Baht	20,283	-	8	-	-	20,291
Turkish Lira	41,955	-	182	-	-	42,137
Yuan Renminbi	-	194	-	-	-	194
Multiple -	558	-	123,204	462,514	586,276	
Total Holdings Subject to Foreign Current Risk	$7,110,088	$919,603	$55,227	$456,470	$462,514	$9,003,902

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

Note: This schedule does not agree with the total International obligations and International equities as listed on the Statement of Plan Net Assets due to American Depository Receipts and International obligations valued in U.S. dollars but classified as International. Mutual Funds listed have exposure to multiple currencies, however, are valued in U.S. dollars.

G. Security Lending Transactions

The System accounts for securities lending transactions in accordance with the codification of the GASB for investments - securities lending.

The following table details the net income from securities lending for the years ended June 30, 2010 and 2009, (in thousands):

	2010	2009
Interest income	$ 28,485	$ 34,255
Less:		
Interest expense	6,369	12,404
Program fees	3,526	3,513
Expenses from securities lending	9,895	15,917
Net income from securities lending	$ 18,590	$ 18,338

The Board of Trustees has authorized the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian, pursuant to a written agreement, is permitted to lend long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan as of June 30, 2010, were long-term U.S. government obligations, domestic and international equities as well as domestic and international obligations. At the initiation of a loan, borrowers are required to provide collateral amounts of 102 percent (domestic equities and bonds) and 105 percent (international equities) of the fair value of the securities lent. In the event the collateral fair value falls below the respective collateral percentages, the borrower is required to provide additional collateral by the end of the next business day. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan. There have been no violations of the provisions of the agreement during the period of these financial statements.

During the Fiscal Year, the System maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool.

As of June 30, 2010, such investment pool had an average duration of 32.78 days and an average final maturity of 72.71 days for USD collateral. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The system cannot pledge or sell collateral securities received unless and until a borrower defaults. At year-end, the System had no credit risk exposure to borrowers because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged as of June 30, 2010 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral:			
U.S. government and agency	$1,955,193	$1,994,250	102%
Domestic fixed income	355,490	367,998	104%
Domestic equity	1,680,536	1,734,086	103%
International fixed income	21,037	22,209	106%
International equity	484,724	512,711	106%
	$4,496,980	$4,631,254	
Lent for noncash collateral:			
U.S. government and agency	25,322	26,146	103%
Domestic equity	11,956	16,458	138%
Domestic fixed income	281	-	0%
International equity	3,542	-	0%
International fixed income	287	-	0%
Total securities lent	$4,538,368	$4,673,858	103%

The securities collateral value is based on the System's pro rata share of the value of the securities collateral maintained in a pool at State Street Bank for all lending clients participating in the lending program. Collateral value listed above includes all collateral for securities on loan; whereas, collateral for loaned securities disclosed on the statements of plan net assets includes only cash collateral, the codification of government accounting and reporting standards.

4. DERIVATIVES

Each Investment Manager's guidelines determine the extent to which derivatives are permissible. Futures and other derivatives are permitted to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market or to modify asset exposure in tactical portfolio shifts. Use of derivatives are not permitted to materially alter the characteristics, including the investment risk, of each manager's account. The Investment Managers are to have in place, and use, procedures that subject derivative based strategies to rigorous scenario and volatility analysis. Futures and short option positions must be hedged with cash, cash equivalents or current portfolio security holdings.

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value		Fair Value at June 30,2010		
Currency	**Classifications**	**Amount(1)**	**Classification**	**Amount(2)**	**Notional(3)**
Commodity Futures Long	Investment Revenue	$ (8,159,381)	Futures	$(12,041,313)	$66,677,528
Commodity Futures Short	Investment Revenue	3,093,080	Futures	3,095,806	(5,989)
Credit Default Swaps Bought	Investment Revenue	(1,704,619)	Swaps	(259,157)	4,351,000
Credit Default Swaps Written	Investment Revenue	15,693,445	Swaps	(5,060,229)	109,199,949
Fixed Income Futures Long	Investment Revenue	51,539,067	Futures	16,569,642	625,250,000
Fixed Income Futures Short	Investment Revenue	(20,970,209)	Futures	(8,363,223)	(713,150,000)
Fixed Income Options Bought	Investment Revenue	30,435	Options	-	-
Fixed Income Options Written	Investment Revenue	3,064,089	Options	(1,904,655)	(227,300,000)
Foreign Currency Options Bought	Investment Revenue	(104,524)	Options	92,554	193,150
Foreign Currency Options Written	Investment Revenue	683,252	Options	(2,136)	(1,500,000)
Futures Options Bought	Investment Revenue	(1,133,654)	Options	328,152	3,969,000
Futures Options Written	Investment Revenue	3,140,972	Options	(325,363)	(1,783,500)
FX Forwards	Investment Revenue	129,041,859	Long Term Instruments	70,622,773	-
Index Futures Long	Investment Revenue	7,068,872	Futures	(1,078,659)	255,600
Index Futures Short	Investment Revenue	(3,245,325)	Futures	-	-
Interest Rate Swaps	Investment Revenue	365,592	Swaps	-	-
Pay Fixed Interest Rate Swaps	Investment Revenue	(3,590,482)	Swaps	(2,157,236)	42,062,000
Receive Fixed Interest Rate Swaps	Investment Revenue	5,606,291	Swaps	2,119,964	2,566,000,000
Rights	Investment Revenue	2,903,601	Common Stock	537,395	2,496,984
TBA Transactions Long	Investment Revenue	13,289,965	Long Term Instruments	1,374,465	216,973,000
TBA Transactions Short	Investment Revenue	(826,543)	Long Term Instruments	(496,031)	(41,495,000)
Total Return Swaps Bond	Investment Revenue	(122,362)	Swaps	-	-
Warrants	Investment Revenue	138,545	Common Stock	4,021,325	1,435,307
		$ 195,801,966		**$ 67,074,074**	

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

A. Credit Risk

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

The aggregate fair value of derivative instruments in asset positions as of June 30, 2010, was $683,501,333. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform. The maximum loss would, however, be reduced by the counterparty collateral and the liabilities included in netting arrangements with counterparties.

Counterparty Ratings

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

Market Value	S&P Rating	Market Value	Moody's Rating	Market Value	Fitch Rating
$205,118,691.40	AA	$31,445,209.84	Aaa	$153,713,507.29	AA
205,984,737.91	AA-	133,610,189.05	Aa1	361,767,600.40	AA-
265,688,662.98	A+	63,338,376.66	Aa2	161,860,872.87	A+
6,709,240.96	A	448,148,859.76	Aa3	6,159,352.69	A
$683,501,333.25	(1)	464,870.58	A1	$683,501,333.25	(1)
		6,493,827.36	A2		
		$683,501,333.25	(1)		

(1) Total aggregate fair value

Risk Concentrations

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
UBS AG London	23%	A+	A+	Aa3
Barclays Bank Plc Wholesale	15%	AA-	AA-	Aa3
Royal Bank Of Scotland Plc	14%	A+	AA-	Aa3
HSBC Bank Plc	10%	AA	AA	Aa3
JPMorgan Chase Bank	10%	AA-	AA-	Aa1
BNP Paribas SA	9%	AA	AA-	Aa2
Westpac Banking Corporation	9%	AA	AA	Aa1
Royal Bank of Canada (UK)	4%	AA-	AA	Aaa
Northern Trust Co. London	2%	AA	AA-	Aa3
Toronto Dominion Bank	1%	AA-	AA-	Aaa
Morgan Stanley and Co. International Plc	1%	A	A	A2
UBS AG	1%	A+	A+	Aa3
Deutsche Bank AG London	1%	A+	AA-	Aa3

B. Interest Rate Risk

During fiscal year the Agency was exposed to interest rate risk. For more details refer to Note 3D.

C. Foreign Currency Risk

The System's derivatives exposed it to foreign currency risk. For more details refer to Note 3F.

5. CONTRIBUTIONS

The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected. Members of the State Police and Judges' Retirement Systems are required to contribute 8% and 6% of earnable compensation, respectively. Members of the Teachers' and Employees' Pension System, Alternate Contributory Pension Selection (ACPS), are currently required to contribute 4% of earnable compensation for fiscal year 2008. Beginning July 1, 2008 forward, the required member contribution rate is 5%. However, members of the Employees' Pension System who are employed by a participating governmental unit that elected to remain in the Contributory Pension System are required to contribute 2% of earnable compensation. The members of the Employees' Pension System who are employed by participating governmental units who elected to remain in the Non-Contributory Pension System are only required to contribute 5% of earnable compensation in excess of the social security taxable wage base.

Contribution rates for employer and other "nonemployer" contributing entities are established by annual actuarial valuations using the entry age normal cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

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

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

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund, and more than 100 participating governmental units make all of the employer and other (non-employer) contributions to the System.

6. LONG-TERM CONTRIBUTIONS RECEIVABLE

In addition to actuarially determined contributions, certain withdrawn employers also make annual installment payments, including interest at the actuarially assumed rate of return in effect at the time of withdrawal (7% or 7.5% per year), for liabilities associated with employees that have elected to stay in the System when their employer elected to withdraw. As of

June 30, 2010 and 2009, the outstanding balances were $48,518 and $51,501 (expressed in thousands), respectively. These payments are due over various time periods, based on the date of the employer's withdrawal, and all are scheduled to culminate with their final payment in fiscal year 2020.

7. REFUNDS

Member contributions plus interest may be refunded to a member who withdraws from the System, or to the designated beneficiary following a member's death. Employer contributions may also be refunded with interest to any participating governmental unit electing to withdraw from the System. For the fiscal years ended June 30, 2010 and 2009, refunds to members and withdrawing employers were as follows (*expressed in thousands*):

	2010	**2009**
Member refunds	$ 33,266	$ 22,324
Employer refunds	265	0
Total refunds	$ 33,531	$ 22,324

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2010 and 2009, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2010	**2009**
Administrative expenses	$ 3,765	$ 4,168
Investment management fees	24,052	18,579
Tax and other withholdings	23,264	20,127
Total	$ 51,081	$ 42,873

9. FUNDED STATUS AND FUNDING PROGRESS

The **Schedule of Funded Status** summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2010. The data presented in the schedule below was obtained from the System's independent actuary's annual valuation report as of June 30, 2010.

The primary measure of a System's funded status is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2010, the System's funded ratio decreased from 65.02% at June 30, 2009 to 64.14% at June 30, 2010. The decrease was primarily due to an increase in the system's actuarial accrued liability due to plan experience.

The Schedule of Funded Status also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. During the year ended June 30, 2010, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 172% at June 30, 2009 to 182%.

The System uses the Individual Entry Age Normal actuarial funding method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate (see note 5).

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 11-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 22.722 years.

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

The funded status of the System as of June 30, 2010 is as follows (*dollar amounts expressed in thousands*):

Actuarial Value of Assets a	Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	Percentage of Covered Payroll [(b - a) / c]
$34,688,346	$54,085,081	$19,396,735	64.14%	$10,657,944	182%

The **Schedule of Funding Progress**, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability. The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method.

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2010
Actuarial Cost Method	Individual Entry Age Normal Cost Method
Amortization Method	Level percent of payroll (period closed)
Remaining Amortization Period	10 years remaining at June 30, 2010 for UAAL at June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL. These periods do not reflect application of the corridor.
Asset Valuation Method	5-year straight line amortization of each year's investment gain or lost with final value not more than 120% nor less than 80% of market.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected payroll growth	3.50%
COLAs	2.75% to 3.50% (depending on system)

For financial reporting purposes, the projection of benefits does not explicitly incorporate the potential effects of the legal limit on employer contributions disclosed in Note 5.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
2001	$ 31,914,778	$ 32,469,942	$ 555,164	98.29 %	$ 7,255,036	8 %
2002	32,323,263	34,131,284	1,808,021	94.70	7,867,794	23
2003	32,631,465	34,974,601	2,343,136	93.30	8,134,419	29
2004	33,484,657	36,325,704	2,841,047	92.18	8,069,481	35
2005	34,519,500	39,133,450	4,613,950	88.21	8,603,761	54
2006 *	35,795,025	43,243,492	7,448,467	82.78	9,287,576	80
2007	37,886,936	47,144,354	9,257,418	80.36	9,971,012	93
2008	39,504,284	50,244,047	10,739,763	78.62	10,542,806	102
2009	34,284,569	52,729,171	18,444,603	65.02	10,714,241	172
2010	34,688,346	54,085,081	19,396,735	64.14	10,657,944	182

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITY

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2001	$ 634,309	100 %
2002	574,019	100
2003	654,578	92
2004	710,632	89 *
2005	805,564	83
2006	874,079	82
2007	1,025,972	81
2008	1,183,765	89
2009	1,313,560	84
2010	1,519,980	86

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

OTHER SUPPLEMENTARY INFORMATION

FUND BALANCE ACCOUNTS

As provided by law, all System assets must be credited, according to the purpose for which they are held, to either the Annuity Savings Fund, the Accumulation Fund or the Expense Fund. These funds are classified as accounts for financial reporting purposes and are further explained as follows:

A. Annuity Savings Fund

Members' contributions together with interest thereon, at statutory interest rates, are credited to the Annuity Savings Fund. Upon retirement, members' accumulated contributions and interest are transferred from the Annuity Savings Fund to the Accumulation Fund.

B. Accumulation Fund

Contributions made by employers, other contributions and investment income are credited to the Accumulation Fund. All retirement, disability and death benefits are paid from this Fund.

C. Expense Fund

All expenses for the administration and operation of the System are recorded in the Expense Fund. During the year, funds are transferred from the Accumulation Fund to the Expense Fund to cover expenses incurred.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2010 (with Comparative 2009 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2010	Totals 2009
Fund Balances, Beginning of Year	$3,235,924	$25,334,550	$ -	$28,570,474	$36,613,710
Additions					
Net investment (loss) income	-	4,198,148	(181,789)	4,016,359	(7,355,906)
Contributions:					
Employers	-	504,701	-	504,701	443,524
Members	535,581	-	-	535,581	532,101
Other	-	801,273	-	801,273	656,333
Contribution interest	-	2,947	-	2,947	9,706
Deductions					
Benefit payments	-	(2,445,540)	-	(2,445,540)	(2,279,171)
Refunds	(33,266)	(265)	-	(33,531)	(22,324)
Administrative expenses	-	-	(28,627)	(28,627)	(27,499)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	155,653	(155,653)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(208,983)	208,983	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(210,416)	210,416	-	-
Net changes in fund balances	448,985	2,904,178	-	3,353,163	(8,043,236)
Fund Balances, End of Year	$3,684,909	$28,238,728	$ -	$31,923,637	$28,570,474

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2010 and 2009

(Expressed in Thousands)

	2010	2009
Personnel services		
Staff salaries	$11,490	$11,518
Fringe benefits	4,248	3,834
Total personnel services	15,738	15,352
Professional and contractual services		
Actuarial	466	388
Legal and financial	476	374
Data processing	7,663	6,972
Other contractual services	406	546
Total professional and contractual services	9,011	8,280
Miscellaneous		
Communications	668	787
Rent	1,912	1,834
Equipment and supplies	587	426
Other	711	820
Total miscellaneous	3,878	3,867
Total Administrative Expenses	$28,627	$27,499

* Note: 2009 numbers have been rellocated to make report comparable.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF INVESTMENT EXPENSES

for the Fiscal Years Ended June 30, 2010 and 2009

(Expressed in Thousands)

	2010	2009
Investment advisors		
Equity managers	$59,124	$33,436
Fixed income managers	19,326	8,850
Alternative investments managers	84,766	64,450
Cash fund managers	172	137
Total investment advisory fees	163,388	107,873
Other investment service fees		
Master custody services	665	653
Income verification services	351	297
Investment consultants	2,072	2,009
Record Currency	14,407	1,308
Other investment expenses	906	871
Total other investment service fees	18,401	5,138
Total Investment Expenses	$181,789	$113,011

Note: Fiscal 2009 numbers have been reallocated to make the report comparable.

This page intentionally left blank

MARYLAND STATE RETIREMENT

SCHEDULE OF PLAN NET

as of June 30, 2010

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets:			
Cash & cash equivalents	$ 989,812	$ 517,468	$ 20,523
Receivables:			
Contributions:			
Employers	1	12,432	160
Employers - Long Term	-	48,518	-
Members	909	6,262	3
Accrued investment income	205,578	117,058	2,617
Investment sales proceeds	387,695	220,572	4,935
Due from other systems	14	88	-
Total receivables	594,197	404,930	7,715
Investments, at fair value			
U.S. Government obligations	1,924,406	1,094,671	24,498
Domestic corporate obligations	1,909,721	1,086,912	24,311
International obligations	555,926	316,261	7,077
Domestic stocks	4,689,520	2,670,736	59,697
International stocks	4,976,286	2,834,061	63,347
Mortgages & mortgage related securities	1,009,663	574,596	12,853
Real estate	239,509	136,156	3,049
Alternative investments	3,051,661	1,735,199	38,848
Collateral for loaned securities	3,024,818	1,490,992	38,495
Total investments	21,381,510	11,939,584	272,175
Inter-fund Transfers			
Total assets	22,965,519	12,861,982	300,413
Liabilities:			
Accounts payable & accrued expenses	31,927	16,393	526
Investment commitments payable	651,073	370,523	8,288
Obligation for collateral for loaned securities	3,024,818	1,490,992	38,495
Other liabilities	1,119	637	14
Due to other systems	72	134	-
Total liabilities	3,709,009	1,878,679	47,323
Net assets held in trust for pension benefits	$19,256,510	$10,983,303	$ 253,090

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

AND PENSION SYSTEM

ASSETS BY SYSTEM

State Police Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 79,048	$ 23,481	$1,630,332	$ -	$ 1,630,332
1,091	1,211	14,895	-	14,895
-	-	48,518	-	48,518
251	159	7,584	-	7,584
10,302	4,615	340,170	-	340,170
19,370	8,705	641,277	-	641,277
-	123	225	(225)	-
31,014	14,813	1,052,669	(225)	1,052,444
96,429	43,207	3,183,211	-	3,183,211
95,697	42,875	3,159,516	-	3,159,516
27,857	12,482	919,603	-	919,603
235,012	105,274	7,760,239	-	7,760,239
249,384	111,711	8,234,789	-	8,234,789
50,555	22,667	1,670,334	-	1,670,334
12,001	5,377	396,092	-	396,092
152,909	68,520	5,047,137	-	5,047,137
8,278	67,650	4,630,233	-	4,630,233
928,122	479,763	35,001,154	-	35,001,154
		-	-	-
1,038,184	518,057	37,684,155	(225)	37,683,930
1,607	628	51,081	-	51,081
32,626	14,617	1,077,127	-	1,077,127
8,278	67,650	4,630,233	-	4,630,233
56	26	1,852	-	1,852
18	1	225	(225)	-
42,585	82,922	5,760,518	(225)	5,760,293
$ 995,599	$ 435,135	$31,923,637	$ -	$31,923,637

MARYLAND STATE RETIREMENT
SCHEDULE OF CHANGES IN
for the Fiscal Year Ended
(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Additions:			
Contributions			
Employers	$ 20,110	$ 391,931	$ 19,439
Members	319,989	201,362	1,800
Other	800,757	-	516
Contribution Interest	-	2,947	-
Total contributions	1,140,856	596,240	21,755
Investment income:			
Net appreciation in fair value of investments	2,017,953	1,143,448	24,401
Interest	187,507	107,042	2,351
Dividends	312,316	177,819	3,789
Real estate operating net income	12,614	7,199	156
Income before securities lending activity	2,530,390	1,435,508	30,697
Gross Income from securities lending activity	17,216	9,786	232
Securities lending borrower rebates	(3,849)	(2,188)	(52)
Securities lending agent fees	(2,131)	(1,211)	(29)
Net income from securities lending activity	11,236	6,387	151
Total investment income	2,541,626	1,441,895	30,848
Less investment expenses:			
Investment advisory fees	(109,041)	(62,208)	(1,382)
Other investment expenses	(648)	(548)	(2)
Total investment expenses	(109,689)	(62,756)	(1,384)
Net investment income	2,431,937	1,379,139	29,464
Transfers from other systems	1,058	335	1
Total additions	3,573,851	1,975,714	51,220
Deductions:			
Benefit payments	1,455,248	835,569	23,816
Refunds	17,197	15,478	-
Administrative expenses	15,195	12,853	39
Transfers to other systems	1,049	585	-
Total deductions	1,488,689	864,485	23,855
Net increase in plan assets	2,085,162	1,111,229	27,365
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	17,171,348	9,872,074	225,725
End of the fiscal year	$19,256,510	$10,983,303	$253,090

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

AND PENSION SYSTEM

PLAN NET ASSETS BY SYSTEM

June 30, 2010

State Police Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
$ 25,465	$ 47,756	$ 504,701	$ -	$504,701
6,671	5,759	535,581	-	535,581
-	-	801,273	-	801,273
-	-	2,947	-	2,947
32,136	53,515	1,844,502	-	1,844,502
103,712	41,834	3,331,348	-	3,331,348
9,647	4,050	310,597	-	310,597
16,325	6,474	516,723	-	516,723
655	266	20,890	-	20,890
130,339	52,624	4,179,558	-	4,179,558
813	438	28,485	-	28,485
(182)	(98)	(6,369)	-	(6,369)
(101)	(54)	(3,526)	-	(3,526)
530	286	18,590	-	18,590
130,869	52,910	4,198,148	-	4,198,148
(5,554)	(2,383)	(180,568)	-	(180,568)
(8)	(15)	(1,221)	-	(1,221)
(5,562)	(2,398)	(181,789)	-	(181,789)
125,307	50,512	4,016,359	-	4,016,359
(2)	276	1,668	(1,668)	-
157,441	104,303	5,862,529	(1,668)	5,860,861
94,255	36,652	2,445,540	-	2,445,540
500	356	33,531	-	33,531
196	344	28,627	-	28,627
29	5	1,668	(1,668)	-
94,980	37,357	2,509,366	(1,668)	2,507,698
62,461	66,946	3,353,163	-	3,353,163
933,138	368,189	28,570,474	-	28,570,474
$995,599	$435,135	$ 31,923,637	$ -	$31,923,637

This page intentionally left blank

Investment Section

CHIEF INVESTMENT OFFICER'S REPORT

INVESTMENT OVERVIEW

The Maryland State Retirement and Pension System returned 14.0 percent in fiscal year 2010. As a result, the market value of assets increased by approximately $3.4 billion, from $28.5 billion on June 30, 2009 to $31.9 billion on June 30, 2010. All of our major asset classes produced positive returns for the year and nearly all performed above their assigned benchmarks.

The System's public equity program returned 15.6 percent, compared with a return of 12.9 percent for its blended benchmark. The program has three components. The U.S. public equity portfolio returned 15.9 percent, compared to a return of 15.7 percent for the Russell 3000 Index, which measures the performance of the largest 3,000 U.S. companies. The international equity portfolio returned 15.2 percent compared to 11.5 percent for its benchmark, the Morgan Stanley Capital International (MSCI) All Country World ex-U.S. Index. The global equity portfolio returned 15.4 percent compared to 13.1 percent for its benchmark, the MSCI AC World Index, a broad measure of stock performance in the developed and emerging markets. The performance of the international and global equity portfolios was enhanced by gains from our currency overlay program.

The fixed income portfolio returned 14.3 percent, compared to 9.5 percent for its blended benchmark: 80 percent Barclays Capital (BC) Aggregate Index and 20 percent BC Global Bond Aggregate Index. The credit opportunities portfolio returned 19.2 percent compared to 17.4 percent for its blended benchmark: 50 percent BC Credit Index and 50 percent BC High Yield Index. The portfolio was established in 2009 and is expected to provide near equity-like returns with bond-like risk.

The real return portfolio returned 12.1 percent, compared to 7.4 percent for its blended benchmark, which consists of the following three components:

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

The absolute return portfolio returned 7.5 percent, compared to 4.9 percent for its customized benchmark: Hedge Funds Research, Inc. (HFRI) Fund of Funds Index. The real estate portfolio returned 3.6 percent versus 4.5 percent for its blended benchmark: Dow Jones Wilshire Real Estate Securities Index (DJW RESI), National Council of Real Estate Investment Fiduciaries Property (NCREIF), and the Financial Times Stock Exchange European Public Real Estate Association (FTSE EPRA) /National Association of Real Estate Investment Trust (NAREIT) Global indices.

The private equity program returned 14.2 percent, compared to the 20.9 percent return of its customized benchmark, the State Street Private Equity aggregate (one quarter lag). The program is still maturing and over time is expected to produce above-market returns.

The System's Terra Maria program returned 18.5 percent, compared to 18.1 percent for its customized benchmark. As more fully described below, the program is comprised of smaller investment management firms focusing primarily on equity and fixed income investments.

INVESTMENT POLICY AND OBJECTIVES

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

Investment objectives are designed to support fulfillment of the System's mission to optimize risk-adjusted returns to ensure that sufficient assets are available to pay benefits to members and beneficiaries when due. As a long-term investor, the System understands that short-term market fluctuations may be volatile.

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

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

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

2. **In nominal terms, equals or exceeds the actuarial investment return assumption of the System adopted by the Board**. The actuarial rate of interest as of June 30, 2010 was 7.75 percent. The actuarial investment return assumption functions as an estimate of the long-term rate of growth of the System's assets. In adopting an actuarial return assumption, the Board anticipates that the investment portfolio may achieve higher returns in some years and lower returns in other years; and

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

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

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

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

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

The Board's asset class targets and ranges as of June 30, 2010 are shown below.

ASSET CLASS	TARGET	RANGE
Domestic Equity	*	NA
International Equity	*	NA
Global Equity	*	NA
Total Public Equity	**36%**	**32% - 40%**
Private Equity	10%	NA
Fixed Income	15%	12% - 18%
Credit / Debt Strategies	10%	8% - 12%
Real Estate	10%	NA
Real Return	10%	8% - 12%
Absolute Return	7%	5% - 9%
Cash	2%	0% - 4%
TOTAL ASSETS	**100%**	

* The Public Equity program is constructed without a home country bias. Accordingly, the weighting of these three components is adjusted from time-to-time, reflecting the investable public equity opportunity set.

INVESTMENT PERFORMANCE

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

The investment program realized a return of 14.0 percent for fiscal year 2010. Annualized returns for the three-, five-, and 10-year years ending June 30, 2010 were -4.8 percent, 2.3 percent and 2.1 percent, respectively.

	FY 2010 SRPS Performance	FY 2010 Benchmark Performance	SRPS Exposure June 30, 2010
Public Equity	15.6%		51.2%
Custom Benchmark		12.9 %	
U.S. Equity	15.9%		20.0%
S&P 500		14.4%	
Russell 3000		15.7%	
International Equity	15.2%		21.8%
MSCI ACWI ex. U.S.		11.5%	
MSCI EAFE		5.9%	
MSCI Emerging Markets		23.2%	
MSCI World ex U.S.		14.2%	
Global Equity	15.4%		9.4%
MSCI AC World		13.1%	
Private Equity	14.2%		3.2%
Custom State Street PE		20.9%	
Russell 3000 + 300 BPS		19.2%	
Fixed Income	14.3%		19.0%
Custom Benchmark		9.5%	
BC Aggregate		9.5%	
BC Global Bond Agg		5.0%	
Credit / Debt Strategies	19.2%		3.4%
Custom Benchmark		17.4%	
BC Credit		14.7%	
BC High Yield		26.7%	
Real Estate	3.6%		6.3%
Custom Benchmark		4.5%	
DJW RESI		56.1%	
NCREIF		-9.6%	
FTSE EPRA NAREIT		10.6%	
Real Return	12.1%		10.5%
Custom Benchmark		7.4%	
Absolute Return	7.5%		4.4%
Custom Benchmark		4.9%	
TOTAL FUND	**14.0%**	**11.8%**	

ECONOMIC AND CAPITAL MARKET OVERVIEW

During fiscal 2010, U.S. and international stock markets registered positive returns after two years of negative returns. The Russell 3000 Index returned 15.7 percent, the MSCI ACWI ex-U.S. Index 11.5 percent and the MSCI Emerging Markets Index 23.2 percent. However, in the final quarter of the fiscal year, U.S. and international equities fell sharply on signs suggesting that the economic recovery was faltering. At the same time, U.S. Treasury securities rallied as investors moved into these assets. Over fiscal year 2010, bonds returned 9.5 percent, as measured by the Barclays Capital Aggregate Bond Index.

As the fiscal year commenced, there were encouraging signs that the U.S. economy was starting to recover from the deepest recession since World War II. The financial system had stabilized and government policies to stimulate consumer spending were taking effect. In turn, the Federal Reserve was injecting large amounts of liquidity into the economy and lowering short-term interest rates. Gross Domestic Product (GDP) grew at a 1.6 percent annual rate in the September quarter, 5.0 percent in the December quarter, 3.7 percent in the March quarter and 1.7 percent in the June quarter.

However, as the fiscal year progressed, it became clear that the economy would not be growing as rapidly as had been hoped. Earlier forecasts of a 4 percent yearly growth in GDP were revised down to 3 percent and then again to 2 – 2.5 percent. With the nation's unemployment rate near 10 percent and an uncertain business outlook, consumers were spending less and reducing credit card debt. As a result, sales of big-ticket items, such as autos, stagnated.

Housing starts received a boost when the government offered tax incentives to homebuyers. After the tax credits expired in April 2010, homes sales fell despite the lowest available mortgage rates in decades. New home sales during the period May - July 2010 were the worst three month period on record, according to the Commerce Department.

As the U.S. economy weakened, inflation did as well. In June 2010, consumer prices dropped for the third straight month, according to a Labor Department report. The decline was mostly due to lower energy and food prices. During the fiscal year, the Consumer Price Index rose 1.1 percent, under the Federal Reserve's unofficial target of 2 percent, which is seen as a level needed to promote sustained economic growth.

As the fiscal year ended, business conditions continued to deteriorate. GDP grew at a 1.7 percent annual rate in the April - June quarter, below an earlier estimate of 2.4 percent. The downward revision set off talk of a double dip recession, although the economy had advanced for four straight quarters. Economists, however, continue to predict tepid or modest economic growth for the U.S. in 2011, aided by an accommodative monetary policy.

PUBLIC EQUITIES

As of June 30, 2010, approximately $16.3 billion of total assets were invested in public equities, representing 51.2 percent of total assets. The public equity program has three components: U.S. equities, international equities and global equities. The program is constructed without a home country bias. Accordingly, the weightings of the three components are adjusted from time-to-time, reflecting the investable public equity opportunity set.

Our Terra Maria program, which is discussed below in more detail, is an integral part of the public equities asset class. At June 30, 2010, 84.8 percent of the Terra Maria program was invested in public equities and 63.6 percent in U.S. equities. Each of the managers in the Terra Maria program has an active management mandate.

A. U.S. Equities

As of June 30, 2010, approximately $6.4 billion or 20.0 percent of total assets were invested in U.S. equities. Passively managed large cap equities totaled $2.9 billion, actively managed assets outside of the Terra Maria program totaled $1.9 billion, and Terra Maria program assets were $1.6 billion, representing 9.0 percent, 5.9 percent, and 5.1 percent of total assets, respectively.

U.S. Equity	$ Millions	% of Total Plan
Passively Managed	**$2,856.9**	**9.0%**
Actively Managed (exclude T.M.)	**1,876.6**	**5.9%**
Terra Maria Program	**1,620.7**	**5.1%**
Total U.S. Equity	**$6,354.2**	**20.0%**

For FY 2010, U.S. equities returned 15.9 percent compared to 15.7 percent for its benchmark, the Russell 3000 Index.

B. International Equities

As of June 30, 2010, approximately $6.9 billion or 21.8 percent of total assets were invested in international equities. Passively managed developed market equities totaled approximately $3.3 billion, actively managed assets outside of the Terra Maria program totaled approximately $3.0 billion, and Terra Maria assets were $0.5 billion, representing 10.4 percent, 9.4 percent, and 1.5 percent of total assets, respectively. As more fully described below, the System has instituted a currency overlay program which is designed to protect international equities in a rising dollar environment.

International Equity	$ Millions	% of Total Plan
Passively Managed	**$3,311.4**	**10.4%**
Actively Managed (exclude T.M.)	**2,983.3**	**9.4%**
Terra Maria Program	**480.7**	**1.5%**
Currency Overlay	**162.7**	**0.5%**
Total International Equity	**$6,938.9**	**21.8%**

For FY 2010, international equities returned 15.2 percent compared to 11.5 percent for its benchmark, the MSCI AC World ex-U.S. Index.

C. Global Equities

As of June 30, 2010, approximately $3.0 billion or 9.4 percent of total assets were invested in global equities. Actively managed assets outside of the Terra Maria program totaled $2.9 billion, and Terra Maria assets were $0.06 billion, representing 9.1 percent and 0.2 percent of total assets, respectively. The System has instituted a currency overlay program which is designed to protect global equities in a rising dollar environment.

Global Equity	$ Millions	% of Total Plan
Actively Managed (exclude T.M.)	**$2,888.7**	**9.1%**
Terra Maria Program	**59.7**	**0.2%**
Currency Overlay	**49.3**	**0.2%**
Total Global Equity	**$2,997.7**	**9.4%**

For FY 2010, global equities returned 15.4 percent compared to 13.1 percent for its benchmark, the MSCI AC World Index.

CURRENCY MANAGEMENT PROGRAM

During the concluding quarter of fiscal 2009, a currency management program was implemented. The objective of the program is to provide insurance against a strengthening dollar, which could negatively impact returns from foreign currency-denominated equities. The manager employed by the System uses a systematic currency overlay strategy. The strategy is dynamic in that the degree to which currency hedging is applied changes depending on currency market conditions. As a general rule, the manager uses low hedge ratios when the dollar is weak and high hedge ratios when the dollar is strong.

During the fiscal year, the value added to the System's portfolio as a result of using this systematic currency overlay strategy was $315.9 million.

PRIVATE EQUITY

In fiscal 2010, the Board made two asset allocation changes that reduced the target allocation to private equity from 15 percent to 10 percent. This reduction was made, in part, to accommodate the creation of a 10 percent target allocation to credit/debt strategies. As of June 30, 2010, private equities totaled roughly $1.0 billion, or 3.2 percent of total assets. This asset class contains only equity-oriented private capital; debt and specialized sectors such as energy and infrastructure reside elsewhere.

In fiscal year 2010, commitments were made to seven private equity funds totaling $257.5 million. Since the inception of the private equity program, commitments have been made totaling roughly $3.7 billion to 80 different funds. In fiscal year 2010, the private equity program returned 14.2 percent, compared to the benchmark's return of 20.9 percent.

In fiscal 2011, we expect that exposure to private equity will continue to increase toward its long-term targeted levels as unfunded commitments are drawn-down. However, as the normal cycle of distributions and call downs has been disrupted since the latter half of 2008, we have purposefully slowed the pacing of new commitments. It will take several more years for the target allocation to be reached in a prudent manner. There is no predetermined target date.

FIXED INCOME

The fiscal 2010 fixed income markets were much improved compared to fiscal 2009. Interest rates fell throughout the year. Investment grade and below-investment grade securities rose, as did U.S. government securities. As of June 30, 2010, fixed income holdings represented 19.0 percent of total assets. The portfolio returned 14.3 percent, compared to the 9.5 percent return of its policy benchmark. Given the "core" orientation of the System's fixed income program, these are exceptionally strong returns. We do not expect this program to produce similar returns in the future.

CREDIT/DEBT STRATEGIES

The credit / debt strategies portfolio totaled approximately $1.1 billion, representing 3.4 percent of total assets as of June 30, 2010. A temporary credit opportunities strategy with an allowable range of up to 5 percent was approved by the Board in December 2008, followed by an initial investment in February 2009. In fiscal 2010, an allocation for credit / debt strategies was made "permanent", and the target was increased to 10 percent of total assets. Investments in this asset class include both liquid and illiquid private structures. To date, the System has funded the program with mezzanine debt, high yield debt, distressed debt, Public-Private Investment Program, and flexible mandates that allow the manager discretion to invest across a broad credit spectrum. The portfolio has a blended benchmark of 50 percent BC U.S. Credit Index and 50 percent BC U.S. High Yield Index. The portfolio returned 19.2 percent in fiscal 2010 versus 17.4 percent for its benchmark.

In fiscal 2011, we expect that credit opportunities exposure will continue to increase toward its long-term targeted levels, as unfunded commitments are drawn down and more investments are made in the asset class. Given the cash flow dynamics in the illiquid component of the asset class, however, it is expected to take several more years for the target allocation to be reached.

REAL ESTATE

The real estate portfolio returned 3.6 percent versus the 4.5 percent return of its custom benchmark, a blend of the NCREIF, FTSE-EPRA NAREIT and Wilshire indices. Private real estate continued to decline during the fiscal year while public real estate securities rose. At the end of the fiscal year, 6.3 percent of total assets, valued at $2.0 billion, were invested in real estate, compared to 6.1 percent or $1.7 billion invested at the same time last year. The program includes direct investments, publicly traded securities, and private investment funds. During the fiscal year, no changes were made to the portfolio.

Private real estate investment continued to lag with the performance of the NCREIF Property Index, a widely utilized measure of privately owned commercial real estate, down 9.6 percent for the year ending March 31, 2010. Private real estate markets have started to show a slight rebound in 2010.

Public real estate securities, as measured by the Wilshire Real Estate Securities Index and the FTSE-EPRA Global ex-U.S. Index, had positive one-year returns of 56.1 percent and 10.2 percent, respectively. Private real estate markets typically lag the forward looking public real estate securities markets.

Even though profits have rebounded, companies have not dramatically picked up the pace for hiring, which has carried over to a lack of demand for commercial real estate. As long as the general economy looks uncertain, many predict that the commercial real estate market will continue to suffer. So far, only the apartment sector has seen a slight improvement.

With the lack of a true floor for commercial property, buyers and sellers found it challenging to agree on pricing. Pricing appeared to bottom out near the end of 2009, which led to an increase in transactions for high-quality investment-grade assets. Lenders have been willing to lend on these assets. Given that there is still uncertainty with the economy, there has been less demand for lower quality assets. So far, distressed opportunities have been slower to come by than what was previously expected. There are still highly levered real estate assets on banks' balance sheets. It is expected that as their earnings increase, banks will be able to address their problem assets by taking them to market.

REAL RETURN

The real return portfolio totaled approximately $3.3 billion, representing 10.5 percent of total assets as of June 30, 2010. The objective of the asset class is to provide a hedge against inflation and enhance diversification for the total fund. As of June 30, 2010, the largest components of the asset class were Treasury Inflation-Protected Securities (TIPS) and global inflation linked bonds totaling $1.8 billion. There was also a large allocation to multi-asset class portfolios with a real return mandate, representing $707 million, or 2.2 percent of total assets. During fiscal year 2010, investments were made in commodities, energy-related assets, infrastructure and timber.

The real return portfolio returned 12.1 percent in fiscal 2010 versus 7.4 percent for its custom benchmark. Active management in both inflation protected securities and multi-asset portfolios were the main drivers of outperformance relative to the benchmark.

ABSOLUTE RETURN

The absolute return portfolio totaled approximately $1.4 billion, representing 4.4 percent of total assets as of June 30, 2010. The portfolio consists of three global macro funds, a fund of funds, and a multi-strategy fund. Its goal is to provide diversification for the total plan through its low correlation to the broad financial markets. It is benchmarked to the HFRI Fund of Funds Composite Index. The portfolio outperformed the benchmark in fiscal 2010, returning 7.5 percent versus 4.9 percent for the HFRI Index.

TERRA MARIA PROGRAM

Terra Maria assets totaled approximately $2.5 billion, or 7.9 percent, of total assets at June 30, 2010. The program produced good absolute and relative performance for the fiscal year, returning 18.5 percent, compared to the custom benchmark's 18.1 percent return. The relative performance results for the program remain positive since its inception. From the April 2007 start of the prior emerging manager program, this initiative has registered outperformance of 305 basis points on a relative basis (-2.81 percent return versus the benchmark's -5.86 percent return).

The Terra Maria program seeks to identify promising smaller or developing managers. It is the successor to an emerging manager program established by the Board in April 2007. Recognizing the program's encouraging results, the Board authorized expansion of the program in early 2008. By the end of 2008, a comprehensive revision of the program was designed and implemented, and the initiative was renamed the Terra Maria Program.

The restructuring of the Terra Maria program brought about a number of changes. First, the Chief Investment Officer was given responsibility for making manager selection and termination decisions, as well as determining funding allocations. Second, program managers were hired to serve as an extension of staff to source investment managers, perform manager due diligence, monitor managers, and prepare manager "hire/fire" and funding recommendations. In addition to the incumbent manager, Northern Trust Global Advisors, six program managers were added: Attucks Asset Management, Bivium Capital Partners, Capital Prospects, FIS Group, Leading Edge Investment Advisors and Progress Investment Management Company.

The program continues to focus on the U.S. equity, international equity, global equity and fixed income asset classes. The program managers and investment managers are evaluated primarily on performance relative to their assigned benchmarks.

CONCLUSION

The Great Recession which began in December 2007 has been declared by the National Bureau of Economic Research to have concluded in June 2009. Clearly, however, challenges still abound, not only for the U.S. but for many other countries. I am proud of the results achieved by the System's investment program during FY 2010; however, sustaining returns at this level over the next several years will be extremely challenging.

While the Board, staff and investment consultants remain very cognizant of these short-term challenges, the System continues to transition the portfolio towards its long-term strategic asset allocation targets. We continue to believe this course offers the best opportunity for the System to meet its long-term investment objectives.

Respectfully submitted,

Mansco Perry III, CFA
Chief Investment Officer

This page intentionally left blank

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2010 and 2009
(Expressed in Thousands)

	2010		2009	
	Fair Value	**% of Fair Value**	**Fair Value**	**% of Fair Value**
Fixed Income				
Fixed Income	$ 5,918,173	18.5%	$ 5,224,560	18.3%
Credit Opportunity	1,068,734	3.4	723,852	2.5
**Net cash & cash equivalents (manager)	143,682	0.5	-330,186	-1.1
Total Fixed Income	**7,130,589**	**22.4**	**5,618,226**	**19.7**
Equity				
Domestic stocks	6,250,917	19.7	7,186,993	25.3
Global stocks	2,941,746	9.2	2,234,313	7.8
International stocks	6,815,839	21.4	6,443,503	22.6
Net cash & cash equivalents (manager)	281,466	0.9	192,813	0.7
Total Equity	**16,289,968**	**51.2**	**16,057,622**	**56.4**
Alternate Investment				
Absolute Return	1,422,125	4.5	748,216	2.6
Private Equity	1,009,433	3.2	962,307	3.4
Real Estate (includes private)	2,041,430	6.3	1,764,192	6.1
Real Return	3,245,931	10.2	1,437,480	5.0
**Net cash & cash equivalents (manager)	54,637	0.2	-209,964	-0.7
*Total Alternate Investments	**7,773,556**	**24.4**	**4,702,231**	**16.4**
Cash				
Total Cash (non-manager)	**646,874**	**2.0**	**2,152,838**	**7.5**
Total Portfolio	**$31,840,987**	**100.0%**	**$28,530,917**	**100.0%**

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

** *Includes investment receivables and payables.*

Note: This schedule includes assets invested on behalf of the Maryland Transit Administration.
The FY2009 schedule has been revised to be comparable with FY2010.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2010
(Expressed in Thousands)

Equity Managers	Fair Value	Investment Advisory Fee
State Street Global Advisors	$3,311,398	$ 2,389
BlackRock Financial Management, Inc.	2,856,857	(35) (1)
T. Rowe Price Associates, Inc.	740,737	3,913
Dimensional Fund Advisors, Inc.	551,535	2,849
UBS Global Asset Management, Inc.	484,980	1,516
Invesco Global Asset Management, Inc.	471,330	1,856
Marathon Asset Management	446,241	6,642
Baillie Gifford & Company	445,025	3,338
Northern Trust Global Advisors, Inc.*	443,862	2,161
Progress Investment Management*	443,744	2,776
Templeton Investment Counsel, Inc.	407,768	1,314
Acadian Asset Management	392,684	1,656
McKinley Capital Management, LLC	370,005	1,825
Artisan Partners Limited Partnership	368,932	2,841
Relational Investors	363,391	2,964
Brown Capital Management	362,691	1,315
Capital Prospects, LLC*	300,906	1,471
Earnest Partners	296,888	1,380
FIS Group, Inc.*	276,279	1,522
Genesis Asset Management	269,003	2,090
Mellon Capital Management	257,193	675
Nuveen Hyde Park Group, LLC	256,202	836
Attucks Asset Management, LLC*	248,697	1,565
Leading Edge Investment Advisors, LLC*	226,978	1,868
Bivium Capital Partners*	220,582	1,428
Goldman Sachs Asset Management	220,154	1,497
Record Currency Management	212,035	14,407
Legg Mason Capital Management, Inc.	205,529	503
Longview Partners Ltd.	199,589	1,123
Rexiter Capital Management Limited	192,456	300
Alliance Bernstein	183,749	586
Breeden Partners, LP	130,186	2,444
GlobeFlex Capital, LP	122,307	838
Other **	10,056	(322) (1)
	$16,289,969	$ 73,531

Fixed Income Managers	Fair Value	Investment Advisory Fee
Western Asset Management	$ 1,240,204	$ 1,864
Pacific Investment Management Company	1,220,852	2,376
State Street Global Advisors	1,110,316	196
Credit/Debt Related*	916,284	10,705
Aberdeen Asset Management, Inc.	457,725	930
Pyramis Global Advisors	447,061	587
Dodge & Cox	345,554	487
Goldman Sachs Asset Management	345,533	71
Principal Global Investors	335,933	440
BlackRock Financial Management, Inc.	325,154	573
Progress Investment Management*	116,604	188
Northern Trust Global Advisors, Inc.*	95,715	292
Attucks Asset Management, LLC*	90,782	201
Leading Edge Investment Advisors, LLC*	49,070	207
Bivium Capital Partners*	36,060	131
Other **	25,873	78
	$ 7,158,720	$ 19,326

Alternative Investment Managers	Fair Value	Investment Advisory Fee
Private Equity Funds*	$ 1,009,742	$ 35,564
Real Return*	3,304,199	12,871
Absolute Return*	1,414,861	11,205
Private Real Estate*	529,857	17,531
Morgan Stanley Investment Management	466,401	2,767
LaSalle Investment Management Securities, LP	380,469	952
LaSalle Investment Management, Inc.	354,600	1,759
J.P. Morgan Investment Management, Inc.	285,093	2,117
Other **	201	1,565
	$ 7,745,423	$ 86,331

Cash Managers	Fair Value	Investment Advisory Fee
Internally Managed	$ 646,875	$ N/A
Other**	0	172
	$ 646,875	$ 172

* *Separately listed on the following page*
** *Consulting fees and investment managers no longer under contract as of 6/30/10*
(1) Includes adjustments for overstated accruals from the prior Fiscal Year
(2) Includes assets invested on behalf of the Maryland Transit Administration

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS RELATIONSHIP LISTING

as of June 30, 2010

Private Equity

Abbott Capital Private Equity Fund III
ABS Capital Partners VI, LP
Adams Street Partners, LLC
Advent Central & Eastern Europe IV, LP
Advent International GPE V-D, LP
Advent International GPE VI-A, LP
Alchemy Partners, LP
Apax Europe VI-A, LP
Apax Europe VII-A, LP
Apollo Investment Fund VII (AIF), LP
Arcadia II Beteiligungen BT GmbH & Co.
Audax Private Equity Fund II, LP
Audax Private Equity Fund III, LP
Azure Capital Partners II, LP
Bain Capital Fund IX, LP
Bain Capital IX Coinvestment Fund, LP
Bain Capital Fund X, LP
Bain Capital X Coinvestment Fund, LP
BC European Capital VIII, LP
Brazos Equity Advisors III, LP
Calvert Street Capital Partners III
Camden Partners Strategic Fund IV
Carlyle Partners V, LP
Charterhouse Capital Partners VIII, LP
Charterhouse Capital Partners IX, LP
Clayton, Dubilier & Rice Fund VIII
Commonwealth Capital Ventures IV, LP
CVC European Equity Partners V-B, LP
Dover Street VII, LP
ECI 8, LP
ECI 9, LP
Frazier Healthcare V, LP
Frazier Healthcare VI, LP
Goldman Sachs Vintage Fund V, LP
Graphite Capital Partners VII
Graphite Capital Partners VII Top Up
Great Hill Equity Partners III
Great Hill Equity Partners IV
Hancock Park Capital III
HarbourVest Partners VI Buyout Fund
HarbourVest Partners VI Partnership Fund
Hellman & Friedman Investors VI, LLC
HgCapital 5, LP
HgCapital 6A, LP
KKR European Fund III, LP
Landmark Equity Partners XIV
Lexington Capital Partners VII
Lion Capital Fund I, LP
Lion Capital Fund II, LP
Littlejohn Fund III, LP
Littlejohn Fund IV, LP
Longitude Venture Partners, LP
Madison Dearborn Capital Partners V, LP
Madison Dearborn Capital Partners VI, LP
Navis Asia Fund VI
New Mountain Partners III, LP
Partners Group Secondary 3009, LP
Permira IV, LP 2
Piper Jaffray CleanTech Fund IV
Private Equity Partners Fund IV
Quaker BioVentures II
Riverside Capital Appreciation V, LP
Riverside Europe Fund IV, LP
RLH Investors II, LP
Summer Street Capital Fund II, LP
Symmetric Partners, LP
TA X, LP
TPG Partners VI, LP
Triton Fund III
Valhalla Partners II, LP
Vector Capital IV, LP
Vestar Capital Partners V, LP
Wind Point Partners VII, LP
Yucaipa American Alliance Fund II, LP

Real Estate

CB Richard Ellis Strategic Partners Europe Fund III
CB Richard Ellis Strategic Partners UK Fund III
CB Richard Ellis Strategic Partners US Value 5, LP
Chesapeake Maryland Limited Partnership
Frogmore Real Estate Partners II
GI Partners Fund III, LP
JER Europe Fund III, LP
JER Real Estate Partners Fund IV, LP
Lion Industrial Trust
Lubert Adler Real Estate Fund III
Lubert Adler Real Estate Fund VI and VI-A
MGP Asia Fund III, LP
PRISA II (Prudential Real Estate Investors)
Realty Associates Fund IX
Rockwood Capital Real Estate Partners Fund VIII, LP
Secured Capital Japan Real Estate Partners Asia, LP
Secured Capital Japan Real Estate Partners IV, LP
Starwood Debt Fund II, LP
Starwood Hospitality Fund II

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS RELATIONSHIP LISTING
as of June 30, 2010
(continued)

Private Equity

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

Absolute Return

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

FIXED INCOME RELATIONSHIP LISTING
as of June 30, 2010

Credit/Debt Related

Oaktree Capital Management
AG-GECC Public-Private Investment Fund LP
Wellington PPIF Management - Advent Legacy
RLJ Western Asset Public/Private Fund LP
Marathon Public Private Investment Fund
Oaktree Principal Fund V
Oaktree Capital Opportunity Fund VIII
Blackrock Credit Investors II
PIMCO Distressed Senior Credit Opportunities Fund
TCW Credit Opportunities Fund I B
Varde Fund X
Falcon Strategic Partners III
LBC Credit Partners II LP
Park Square Fund II
Partners Group European Mezzanine 2008 LP
Peninsula Fund V
Prudential Capital Partners III

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS PARTNERSHIP LISTING
as of June 30, 2010
(continued)

Terra Maria Program

Attucks Asset Management
Advent Capital Management
Brown Investment Advisory
Charter Financial Group
Globeflex Capital LP
GW Capital Inc
Hanseatic Management Services Inc
Holt-Smith Advisors Inc
Hughes Capital Management
LM Capital Group LLC
Mar Vista Investment Partners
Opus Capital Management
Seizert Capital Partners
Speece Thorson Capital Group Inc
The Edgar Lomax Company
Xavier Capital Management
Zevenbergen Capital Investments
Bivium Capital Partners
BRC Investment Management LLC
Cheswold Lane Asset Management LLC
Cornerstone Capital Management Inc
Cupps Capital Management
IronBridge Capital Management
Northroad Capital Management LLC
OakBrook Investments LLC
Phocas Financial Corporation
Piedmont Investment Advisors LLC
Three Peaks Capital Management LLC
Capital Prospects LLC
AH Lisanti Capital Growth LLC
Bernzott Captial Advisors
Geneva Capital Management Ltd
Great Northern Capital
Hanseatic Management Services Inc
Inview Investment Management LLC
Montrose Asset Management LLC
Next Century Growth Investors LLC
Paradigm Asset Management Co LLC
Profit Investment Management
Redwood Investment LLC
Walthausen & Co LLC
FIS Group
Advanced Investment Advisors
Ativo Capital Management
Bedlam Asset Management PLC
Boston Common Asset Management
BRC Investment Management LLC
Channing Capital Management LLC
Denali Advisors LLC
OakBrook Investments LLC
Redwood Investment LLC
Smith Group Asset Management
Thomas White International Ltd
Victoria 1522 Investments
Winslow Capital Management Inc
Leading Edge Investment Advisors
Driehaus Capital Management LLC
Gratry & Company Inc
Herndon Capital Management
Lombardia Capital Partners LLC
Markston International LLC
Mindshare Capital Management LLC
New Century Investment Management Inc
Nicholas Investment Partners
NMF Asset Management LLC
Penn Capital Management Co Inc
SIT Investment Associates Inc
Westwood Global Investments
Northern Trust
Cornerstone Investments Partners
Credo Capital Management
Eagle Global Advisors
Geneva Capital Management
Herndon Capital Management
Hexavest Inc
JK Milne Asset Management
KDP Asset Management
Lombardia Capital Partners
Magee Thompson Investment Partners
New Century Advisors
Palisades Investment Partners
Profit Investment Management
Riverbridge Partners
Signia Capital Management
Sky Investment Coucil
Summit Creek Advisors
Twin Capital Management Inc
Progress Investment Management
Ambassador Capital Management
Ariel Investments LLC
Boston Common Asset Management
Cardinal Capital Management LLC
Channing Capital Management
Credo Capital Management
Decatur Capital Management
Denali Advisors LLC
DSM Capital Partners LLC
GW Capital Inc
Ironwood Investment Management LLC
John HSU Capital Group Inc
Lombardia Capital Partners LLC
New Century Advisors
Pugh Capital Management Inc
SanJuan Asset Management
Shapiro Capital Management LLP

Bold denotes Program Manager for the Terra Maria Program

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2010

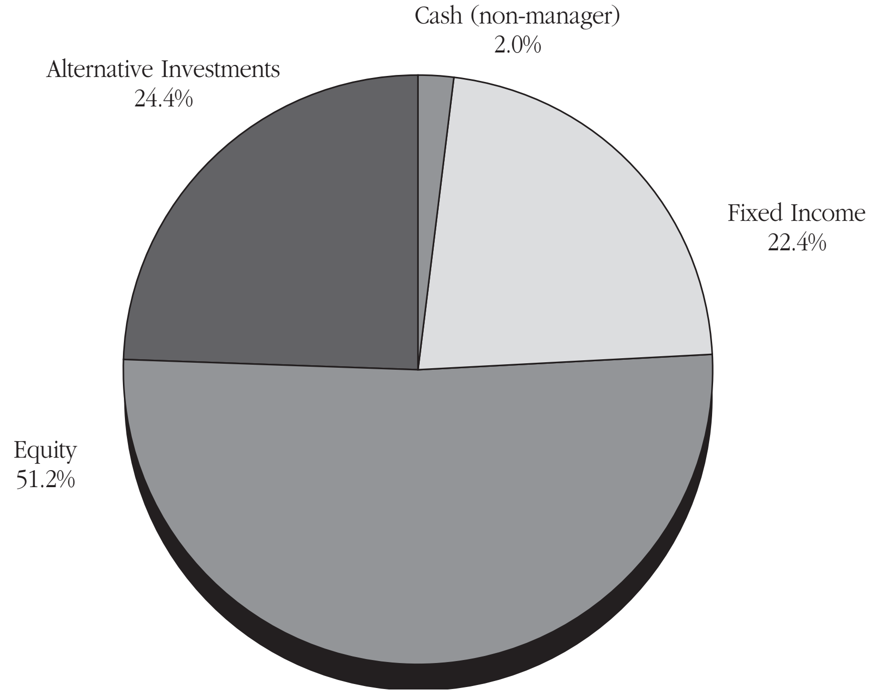
(Expressed in Thousands)

Brokers *	Total Shares	Total Commission
Merrill Lynch	105,702	$ 1,216
Credit Suisse Securities	170,178	1,000
J P Morgan Securities	105,108	934
Goldman Sachs	99,971	851
Morgan Stanley	76,199	789
UBS	158,068	670
Pershing	78,723	624
Citigroup Global Markets	82,952	605
Deutsche Bank	95,663	576
Instinet	168,641	541
Jefferies & Company	26,348	484
BNY Brokerage	13,183	415
Nomura Securities	90,094	353
Investment Technology Group	59,041	318
Barclays Capital, Inc.	19,096	310
Credit Agricole	15,004	294
Macquarie Securities	146,839	246
Sanford C. Bernstein	9,802	239
Societe Generale	6,854	235
Cantor Fitzgerald & Co.	11,228	205
Stifel Nicolaus & Co., Inc.	4,855	166
Loop Capital Markets	6,460	156
ISI Group, Inc.	4,081	150
Mr Beal & Company	5,404	128
Cabrera Capital Markets	9,688	121
G Trade Services Ltd.	28,391	117
Percival Financial	3,041	113
Liquidnet	10,623	111
Knight Securities	10,342	104
State Street Gobal Markets	10,200	101
William Blair & Co. LLC	2,453	101
Other Broker Fees	472,482	4,130
Total broker commissions	2,106,714	$ 16,403

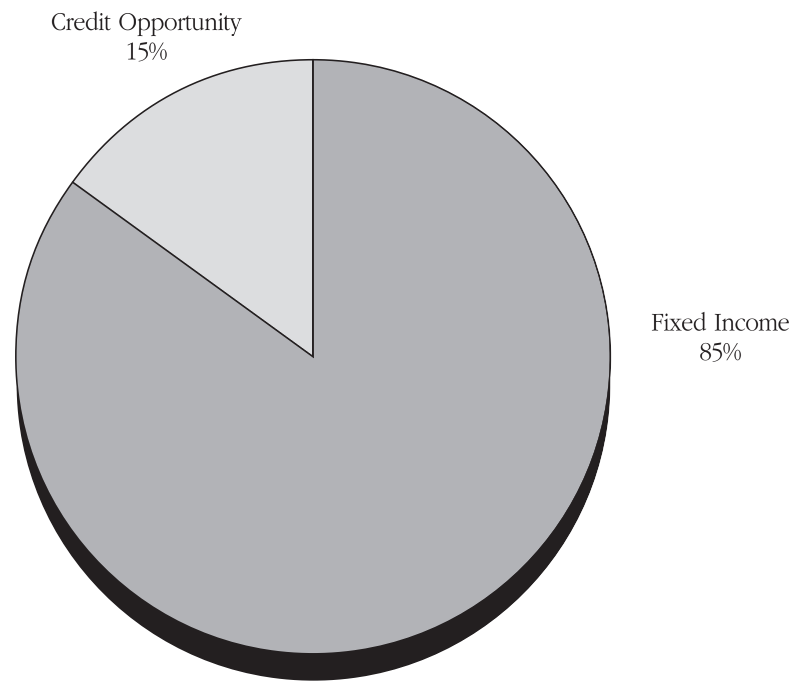
** Proceeds from the sale and disbursements for the purchase of securities are reported net of brokers' commissions. As such, brokers' commissions are not included as investment expenses on the Statements of Changes in Plan Net Assets. Other broker fees include 331 brokers each receiving less than $100,000 in total commissions.*

For the fiscal year ended June 30, 2010, total domestic equity commissions averaged 1.20 cents per share, and total international equity commissions averaged 11.34 basis points per share.

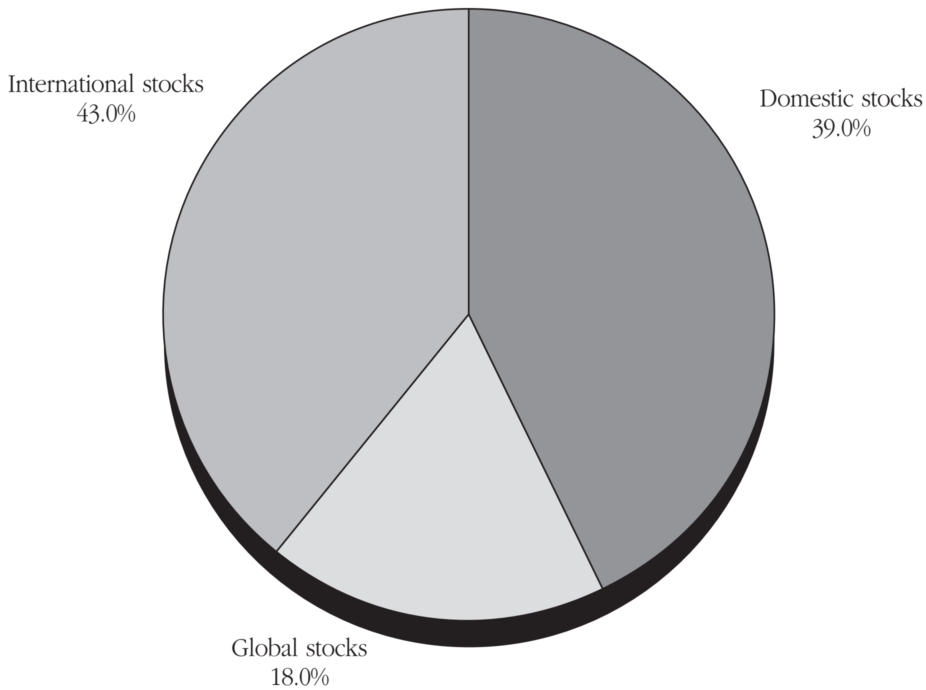
INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2010



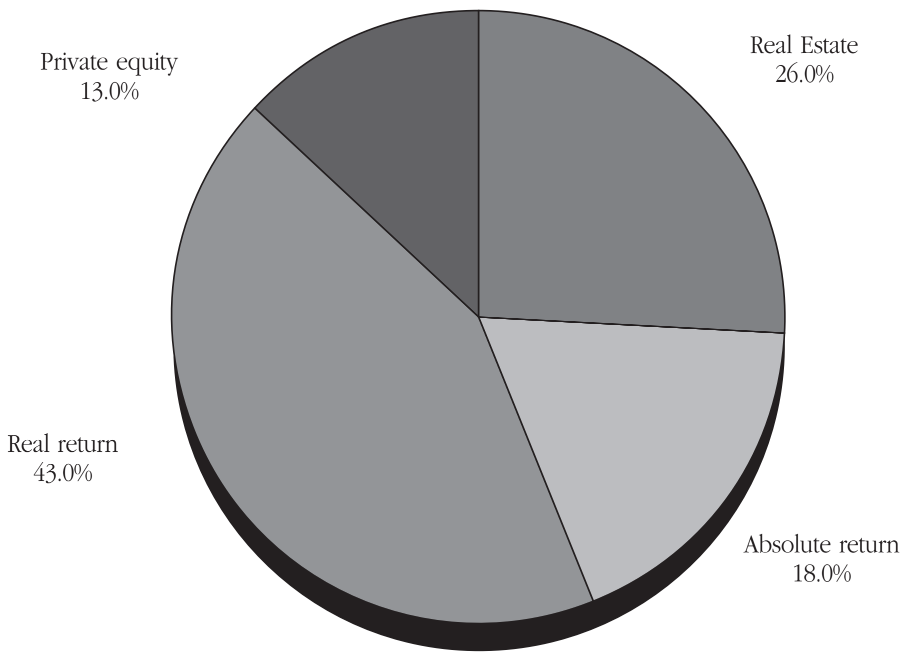
FIXED INCOME DISTRIBUTION BY TYPE
as of June 30, 2010



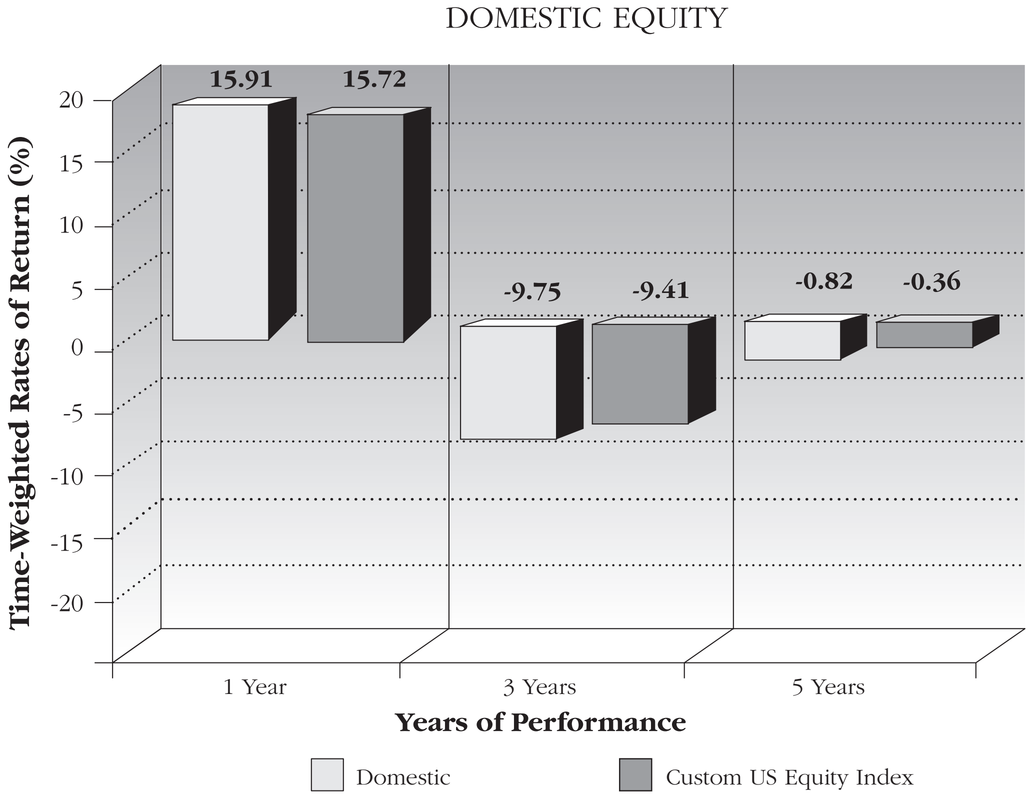
EQUITY DISTRIBUTION BY TYPE
as of June 30, 2010

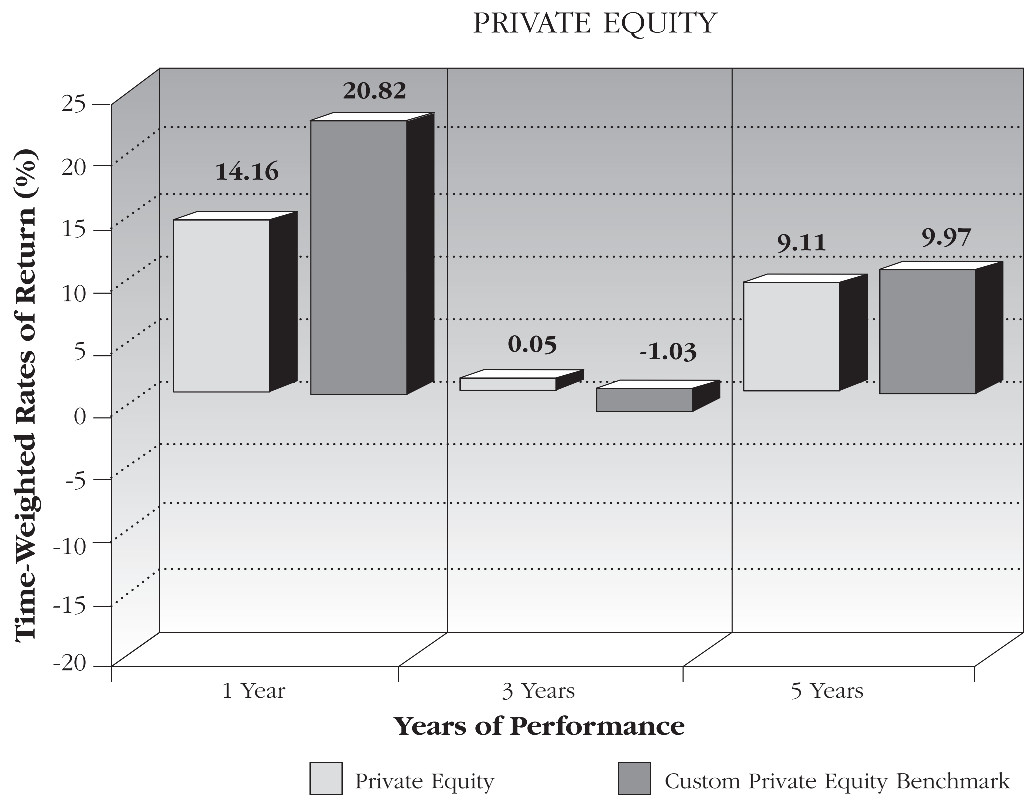


ALTERNATE INVESTMENT DISTRIBUTION BY TYPE
as of June 30, 2010

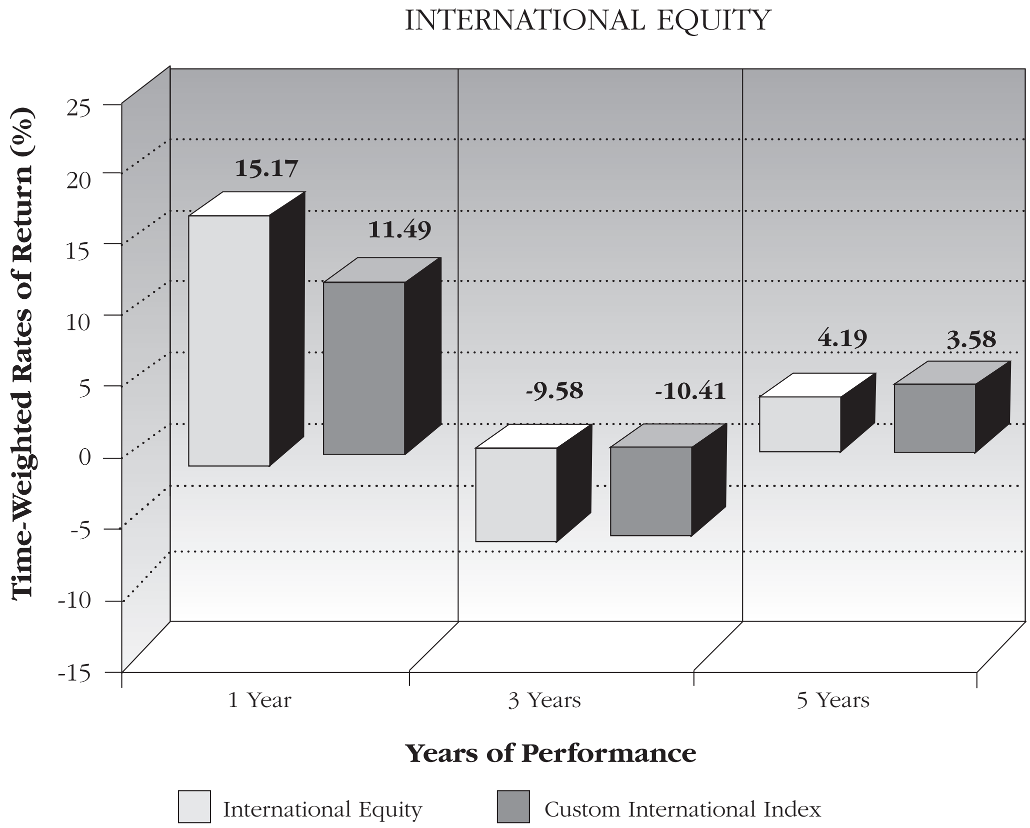


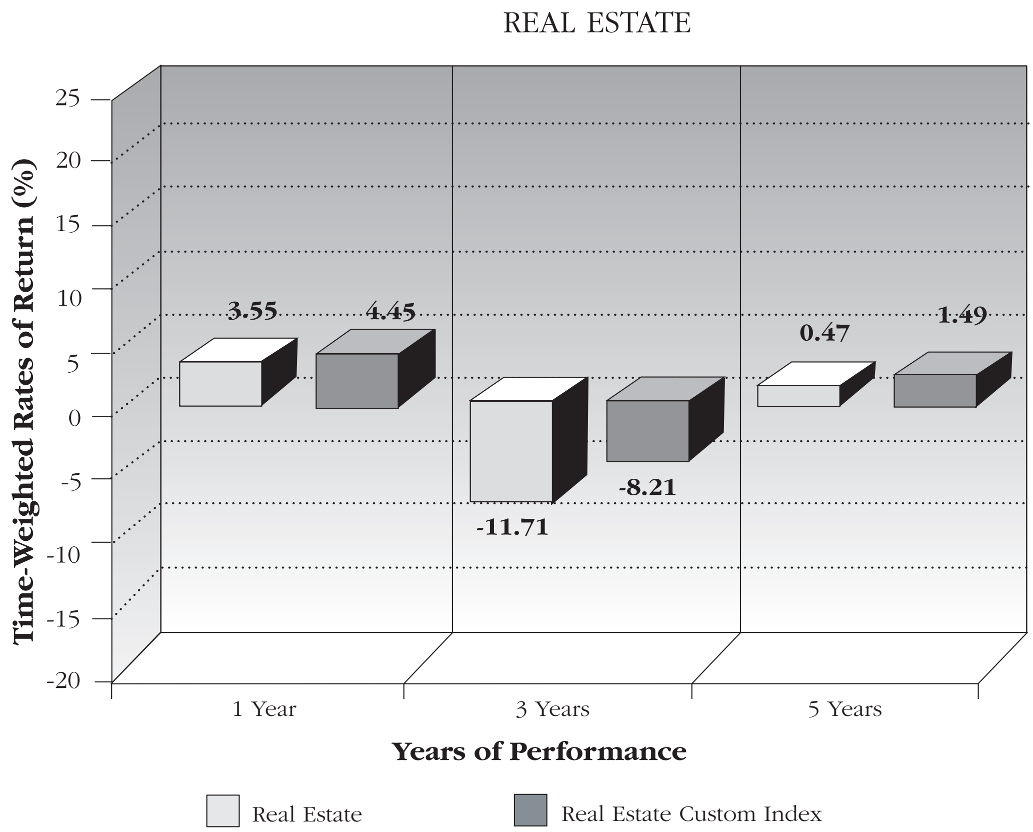
Comparative Investment Returns Ending June 30, 2010



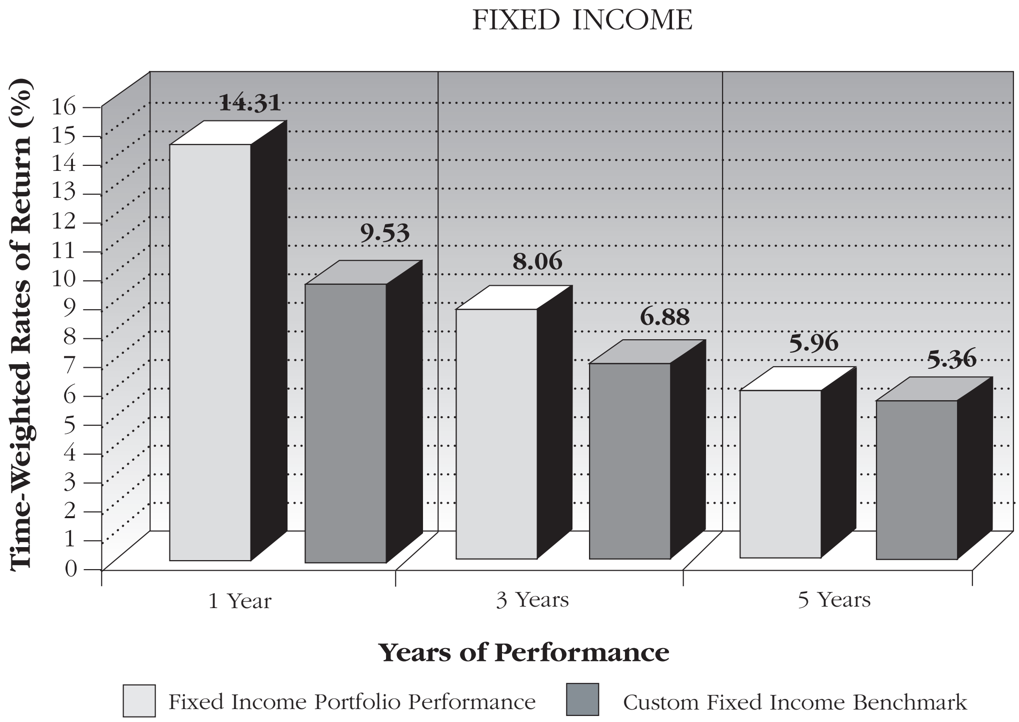


Comparative Investment Returns Ending June 30, 2010

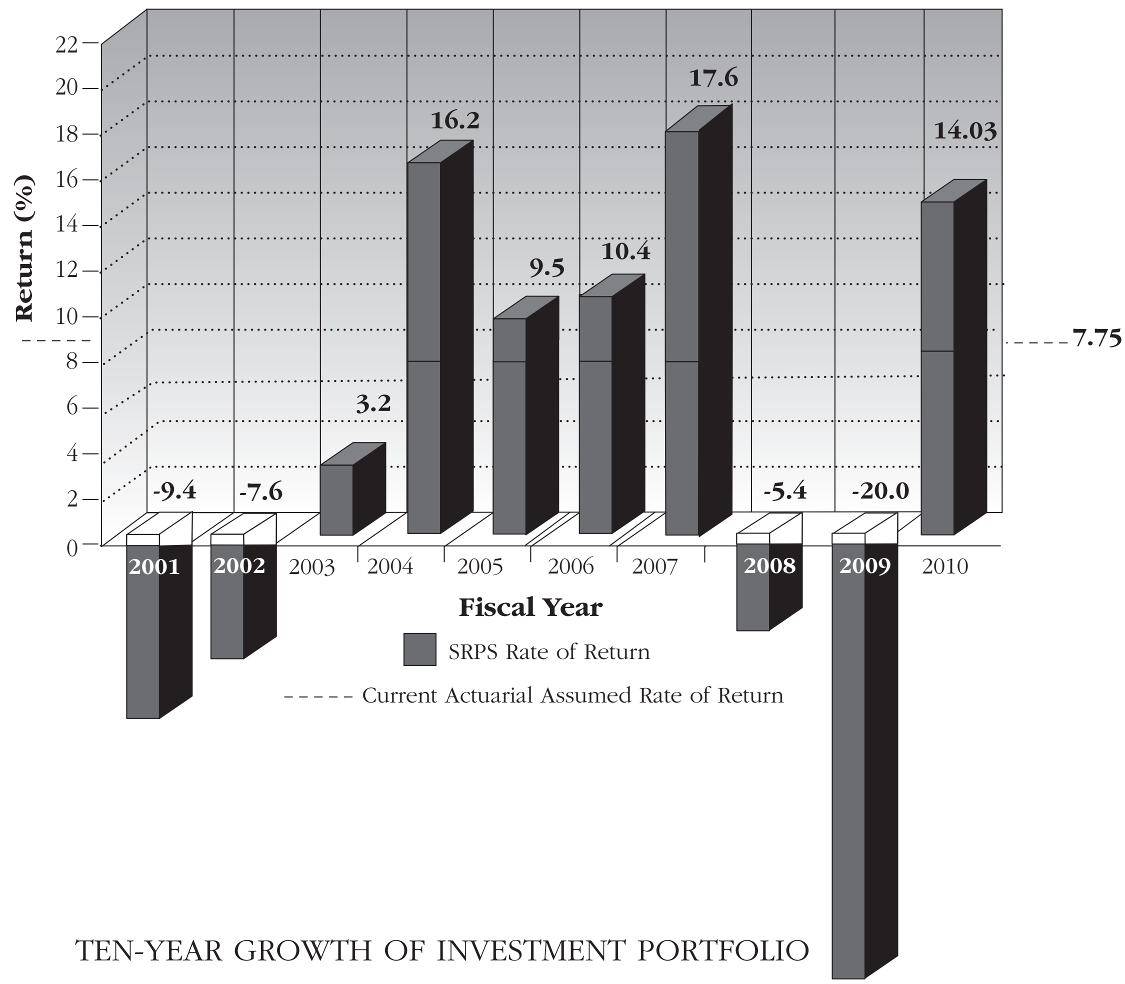




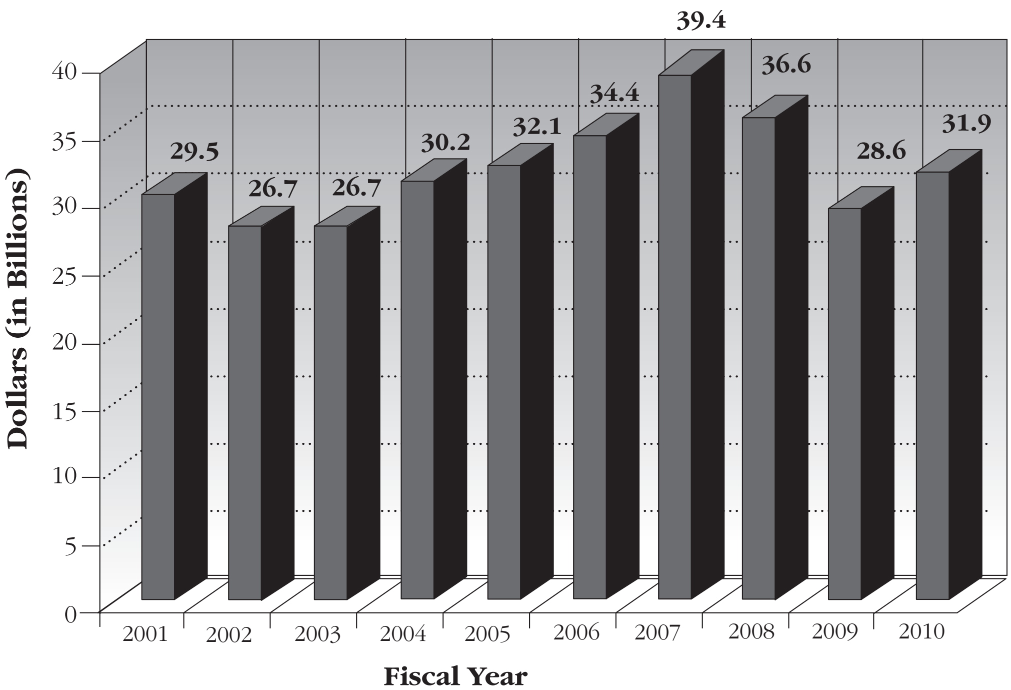
COMPARATIVE INVESTMENT RETURNS ENDING JUNE 30, 2010



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LARGEST STOCK & BOND HOLDINGS AT MARKET

as of June 30, 2010

EQUITY INCOME SECURITIES:	Shares	Market Value
Apple, Incorporated	548,186	$ 137,885,225
Exxon Mobil Corporation	1,921,792	109,676,696
Nestle SA	2,260,483	109,423,854
JP Morgan Chase & Company	2,805,855	102,722,352
Google, Incorporated	193,220	85,973,239
International Business Machines	693,488	85,631,898
Johnson & Johnson	1,410,865	83,325,687
Microsoft Corporation	3,613,865	83,155,034
Roche Holdings AG	570,832	78,927,112
Bank of America Corp	5,318,395	76,425,336
HSBC Holdings	8,090,730	74,467,084
Proctor and Gamble Company	1,149,476	68,945,571
Vodafone Group PLC	32,786,012	68,254,630
General Electric Company	4,650,883	67,065,733
Chevron Corporation	981,569	66,609,272
AT&T, Incorporated	2,723,966	65,892,738
Cisco Systems,Incorporated	3,059,563	65,199,288
Hewlett Packard Co	1,410,533	61,047,868
Amazon.Com Inc	547,885	59,861,915
Wells Fargo & Company	2,303,453	58,968,397

FIXED INCOME SECURITIES	Par Value	Market Value
Unites States Treasury Notes, 2.125%, due May 31, 2015	$ 181,399,000	$ 184,517,204
Unites States Treasury Notes, 3.625%, due Aug 15, 2019	132,090,000	139,673,518
Unites States Treasury Notes, 2.0%, due Jan 15, 2016	116,495,701	125,715,577
Unites States Treasury Bonds, 2.375%, due January 15, 2025	101,480,320	114,149,256
Unites States Treasury Bonds, 2.0%, due January 15, 2026	98,817,650	104,531,431
Unites States Treasury Notes, 3.0%, due July 15, 2012	89,593,583	95,399,568
Unites States Treasury Notes, 1.875%, due July 15, 2013	81,538,954	87,173,514
Unites States Treasury Notes, 1.75%, due July 15, 2015	75,826,630	79,748,107
Unites States Treasury Bonds, 3.625%, due April 15, 2028	60,442,358	78,602,050
Unites States Treasury Notes, 1.625%, due January 15, 2015	68,206,771	72,044,500
Federal National Mortgage Assn., Pool AC8512, 4.5%, due Dec 1, 2039	68,766,867	71,401,325
United States Treasury Bill, .0912%, due July 8, 2010	70,026,000	70,025,047
Unites States Treasury Notes, 2.375%, due April 15, 2011	68,248,174	69,387,122
Unites States Treasury Notes, .875% due May 30, 2011	67,700,000	68,022,929
Unites States Treasury Bonds, 3.875%, due April 15, 2029	47,316,191	63,670,746
Unites States Treasury Notes, 2.625% due July 31, 2014	59,913,000	62,604,292
Unites States Treasury Notes, 2.625% due Dec 31,2014	49,700,000	51,765,532
Unites States Treasury Bonds, 4.5%, due Aug 15, 2039	43,609,000	48,031,389
Unites States Treasury Bonds, 2.375%, due Jan 15, 2027	40,980,331	45,403,298
Unites States Treasury Notes, 4.625%, due Feb 15, 2040	39,134,000	43,990,719

A complete list of portfolio holdings is available upon request.

SRPS

Actuarial Section

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 18, 2010

Board of Trustees
Maryland State Retirement and Pension System
120 E. Baltimore Street, 16th Floor
Baltimore, MD 21202-1600

Dear Members of the Board:

At your request, we have performed our annual actuarial valuation of the Maryland State Retirement & Pension System as of June 30, 2010.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain relatively level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus a level percent of payroll amortization of the pre-2001 unfunded actuarial liability to the year 2020, and of each subsequent layer of unfunded actuarial liability (whether it arises from plan changes, assumption changes or gains/losses) over a 25 year period from the year it first arises. Maryland law now contains provisions (i.e. a corridor approach) to mitigate annual fluctuations in contribution rates. Due to this funding approach, the contribution rates currently being appropriated for the Employees' and Teachers' Combined Systems are lower than the actuarially determined rates for GASB No. 27 accounting purposes.

Assumptions

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

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

The results and conclusions of this report are only valid for the July 1, 2010 plan year and should not be interpreted as applying to future years. The actuarial assumptions reflect our understanding of the likely future experience of the plans in the program and the assumptions as a whole represent our best estimate for the future experience of the those plans. The accuracy of the results presented in this report is dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the plans could vary from our results.

Reliance on Others

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

Supporting Schedules

Certain information presented in the System's June 30, 2010 CAFR was derived from our June 30, 2010 actuarial valuation report. In this regard, we were responsible for producing all supporting schedules to be found in the Actuarial Section.

Additionally, we were responsible for producing all data presented in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to the Required Supplementary Information shown in the Financial Section of the 2010 CAFR. Information pertaining to valuations prior to 2009 was determined by previous actuarial firms.

Certification

On the basis of the foregoing, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with Maryland's Annotated Code and generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board.

Sincerely,

Amy Williams

Brad L. Armstrong, ASA, EA, MAAA Consulting Actuary	Brian B. Murphy, FSA, EA, MAAA Consulting Actuary	Amy Williams, ASA, MAAA Consultant

BLA:sac

BOARD SUMMARY

This report presents the results of the June 30, 2010 annual actuarial valuation of the Maryland State Retirement and Pension System (MSRPS). The purposes of the annual valuations are as follows:

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

ACTUARY'S COMMENTS

The System's assets earned **14.22%**[1] for the year ended June 30, 2010, which is more than the 7.75% assumed rate of investment return. The net result, after applying the asset valuation method and the phase in of prior losses was an actuarial loss on assets. Asset losses from FY 2008 and FY 2009 were recognized in the actuarial value of assets as of June 30, 2010, under the asset smoothing method, resulting in the loss.

The System's unfunded actuarial liability increased by **$952 million** to **$19,397 million** as of June 30, 2010. This compares to **$18,445** million of unfunded liability measured as of the June 30, 2009 valuation. The actuarial investment loss increased the unfunded actuarial liability by **$1,565 million**. Added to this was a liability gain of **$1,478 million**, which indicates that actual experience during the year ending June 30, 2010 was more favorable than the non-investment actuarial assumptions. Thus the total System experienced a net actuarial loss of **$87 million**. In relative terms, the overall System funding ratio of actuarial value of assets to liabilities fell from 65.02% in 2009, to **64.14%** this year. If market value of assets were the basis for the measurements, the plan would be 59.02% funded. The market value of assets exceeds the retiree liabilities by about 12% in total. This is referred to as a short contribution test. It is looking at the current retiree liabilities as the benefits that will be paid the soonest since these benefits are already in pay status. Active liabilities and deferred vested liabilities do not have associated immediate cash flow requirements. Although the market value of assets exceeds the current retiree liabilities in total, this is not true for the smaller systems. For State Police, Judges and LEOPS, the market value of assets is less than the retiree liabilities.

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

	TCS	ECS	State Police	Judges	LEOPS	CORS	Total
Market Value of Assets (MVA)	$19,257	$10,975	$ 996	$ 253	$ 435	$ 8	$31,924
Retiree Liability	16,886	9,571	1,348	261	523	0	28,590
MVA as % of Retiree Liability	114%	115%	74%	97%	83%		112%

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

In the 2001 legislative session, the Legislature changed the method used to fund the two largest Systems of the MSRPS: the Teachers Combined System and the State portion of the Employees Combined System to a corridor method. Under this funding approach, the State appropriation is fixed at the June 30, 2000 valuation rate as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded. Once the ratio falls outside this corridor, the appropriated or budgeted rate will be adjusted one-fifth of the way toward the underlying actuarially calculated rate. Plan amendments and assumption and method changes are fully recognized if the funded ratio of the System is between 90% and 110%. The Teachers' Combined System (TCS) has remained out of the corridor since the June 30, 2005 valuation and the State portion of the Employees Combined System (ECS) remained out of the corridor since the June 30, 2004 valuation resulting in a decrease in the TCS and ECS contribution rates, when compared with actuarial rates.

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

The actuarially determined rates exclude the corridor funding method and are equal to the employer normal cost plus the unfunded actuarial accrued liability contribution rate. The unfunded actuarial contribution rate is equal to the sum of amortization payments resulting from separate unfunded liability bases amortized as a level percentage of pay. The unfunded liability base as of July 1, 2000, is being amortized over a 20-year closed period (with 10 years remaining as of July 1, 2010) plus a 25-year closed period amortization of the unfunded liability that emerges in each subsequent year.

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

The budgeted rate for TCS is only about 3/4 of the actuarially determined rate and less than the GASB ARC rate, and the budgeted rate for ECS is less than 2/3 of the actuarially determined rate and less than 3/4 of the GASB ARC rate. Although the budgeted contribution rate for State Police is equal to the actuarially determined rate, it is only about 85 percent of the GASB ARC rate which amortizes the unfunded liability over 30 years.

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

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

FY2012 Contribution Rates (State Portion Only)

	TCS	ECS	State Police	Judges	LEOPS	Total
Budgeted Contribution Rate	15.45%	13.40%	61.01%	60.37%	49.26%	15.67%
Actuarially Determinde Rate	19.91%	20.25%	61.01%	60.37%	49.26%	20.81%
Budgetd/Actuarially Determined Rate	77.60%	66.19%	100.00%	100.00%	100.00%	75.31%
GASB Annual Required Contribution	19.91%	20.25%	70.26%	60.37%	49.26%	20.88%
Budgeted/GASB ARC Rate	77.60%	66.19%	86.83%	100.00%	100.00%	75.06%

PRIOR YEAR EXPERIENCE

Assets (State and Municipal)

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

For the plan year ending June 30, 2010, the System's assets earned **14.22%**[1] on a market value basis and **3.14%** on a smoothed or actuarial basis. While on a market basis, the System experienced a market value investment gain of **$1,827** million, the actuarial basis experienced a loss of **$1,565** million. A reconciliation of market value and actuarial value of assets are presented below.

Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2009 Value	$28,570	$34,285
June 30, 2009 Municipal Withdrawls		
/New Entrants	–	–
Employer Contributions	1,309	1,309
Member Contributions	536	536
Benefit Payments	(2,508)	(2,508)
Expected Investment Earnings (7.75%)	2,189	2,632
Expected Value June 30, 2009	$30,096	$36,253
INVESTMENT GAIN (LOSS)	**1,827**	**(1,565)**
June 30, 2009 Value	$31,924	$34,688

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

Trends (State and Municipal)

One of the best ways to measure or evaluate the financial condition of a pension plan is to examine the historical trends that are evolving. Below, we present three charts which present trend information from 1993 through the end of 2010, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

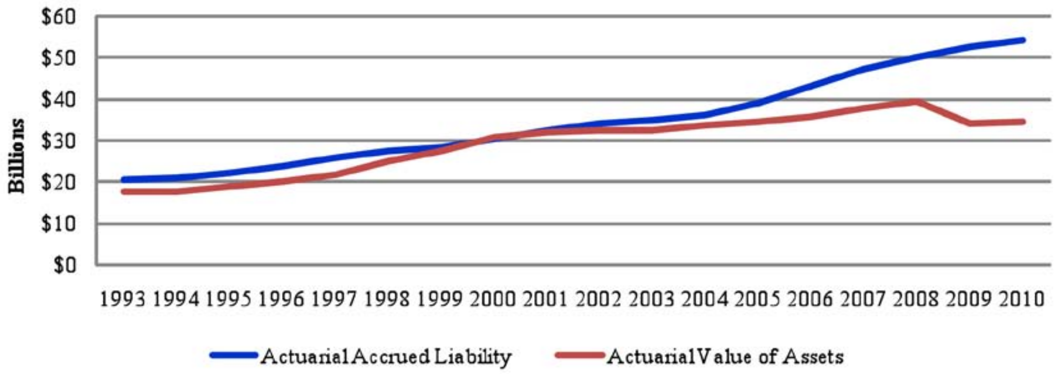


Chart B:
Benefits vs Contributions

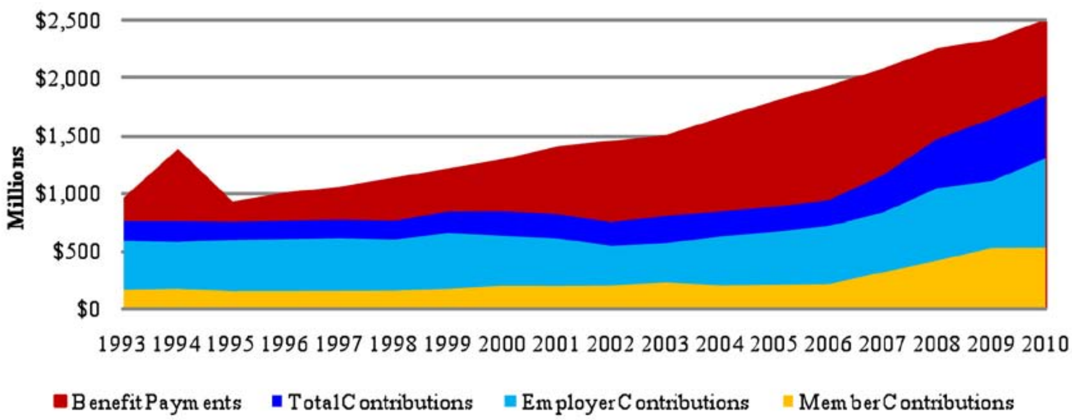
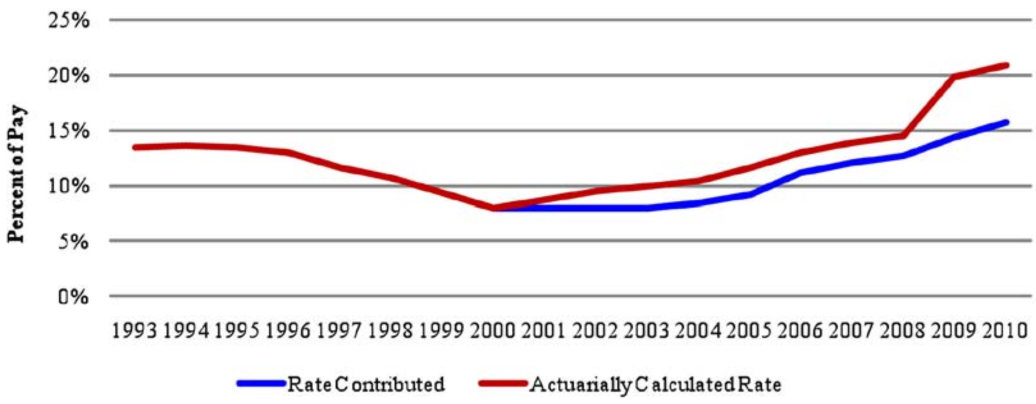


Chart C:
State Contribution Rate



Comments

Chart A places into perspective the investment results of the past ten years. The ratio of actuarial assets to liabilities (i.e., funding ratio) has grown since the early 1980's. The current decade's aggregate unfavorable investment experience has eroded the funded ratio from its peak. The actuarial value of assets still contains unrecognized market losses from 2008 and 2009 which will not be fully reflected in the asset value until 2013 under the 5-year asset smoothing method. It could take another 10 years after that for those losses to be fully reflected in the contribution rates in the absence of future gains.

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

Finally, **Chart C**, looks at the composite actuarially determined and budgeted State contribution rates. The budgeted contribution rates by System determine the fiscal year State appropriation. It shows the impact of the 1990's decade's sustained investment gains, a continuous lowering of the rate until 2000. Effective with the 2001 valuation, the State appropriations were performed under a corridor funding method for the two largest plans. The appropriation remained essentially level for a few years before increasing with the 2004 valuation. In the absence of significant favorable investment and/or demographic experience, the contribution rates can be expected to increase to the level indicated if the corridor method had not been adopted. Without the corridor method, the State contribution in FY 2012 would be 5.14% of payroll higher than the amount to be budgeted under the corridor method. The actual contribution rate for FY 2012 is therefore 25% less than the actuarially determined rate.

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

ACTUARIAL METHODS AND ASSUMPTIONS

Funding Method

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

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 10-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 22.722 years.

Asset Valuation Method

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

Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2010:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2003);
- projected salary increases of 3.5% compounded annually, attributable to inflation (adopted June 30, 2007);
- additional projected salary increases ranging from 0.00% to 8.50% per year attributable to seniority and merit (adopted June 30, 2007);
- post-retirement benefit increases ranging from 2.75% to 3.5% per year depending on the system (adopted June 30, 2009);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 2003 through 2006 (adopted June 30, 2007); and
- an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

SUMMARY OF UNFUNDED ACTUARIAL

(STATE AND

Valuation Date June 30,	Actuarial Liabilities For: Active Member Contributions	Actuarial Liabilities For: Retirees, Term Vested and Inactives	Actuarial Liabilities For: Active Members Employer Fin. Portion	Total Liabilities	Actuarial Value of Assets
2001	$1,752,989,299	$15,939,733,140	$14,777,219,354	$32,469,941,793	$31,914,778,425
2002	1,858,783,727	16,783,959,580	15,488,540,705	34,131,284,012	32,323,263,153
2003	1,973,371,055	17,573,117,822	15,428,111,989	34,974,600,866	32,631,464,884
2004	2,064,065,193	19,041,901,524	15,219,737,348	36,325,704,065	33,484,656,570
2005	2,148,065,879	20,975,329,441	16,010,054,447	39,133,449,767	34,519,500,395
2006	2,217,897,868	22,086,452,920	18,939,141,669	43,243,492,457	35,795,025,134
2007	2,489,643,667	25,790,846,645	18,863,863,688	47,144,354,000	37,886,935,596
2008	2,787,163,875	27,224,603,428	20,232,279,697	50,244,047,000	39,504,284,202
2009	2,959,415,829	28,914,824,184	20,854,931,317	52,729,171,330	34,284,568,617
2010	3,389,265,622	29,900,015,751	20,795,799,745	54,085,081,118	34,688,345,696

SUMMARY OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

(STATE AND MUNICIPAL)

Fiscal Year Ended	Added to Rolls: Number	Added to Rolls: Annual Allowance	Removed from Rolls: Number	Removed from Rolls: Annual Allowances	Rolls-End of Year: Number	Rolls-End of Year: Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
2001	6,071	$145,073,765	2,659	$34,172,397	84,185	$1,322,301,637	9.15 %	$15,708
2002	5,925	107,545,768	2,743	36,803,883	87,367	1,393,043,522	5.35	15,945
2003	6,216	123,497,444	2,780	38,449,020	90,803	1,478,091,946	6.11	16,278
2004	6,822	152,664,871	2,745	38,223,588	94,880	1,592,533,229	7.74	16,785
2005	8,179	179,497,068	2,863	41,696,122	100,196	1,730,334,175	8.65	17,269
2006	6,822	164,369,688	3,247	34,799,179	103,831	1,859,904,684	7.49	17.913
2007	5,967	177,884,598	1,443	17,852,392	108,355	2,019,936,890	8.60	18,642
2008	7,310	205,072,079	3,243	48,851,264	112,422	2,176,157,700	7.73	19,357
2009	6,700	218,347,411	3,115	56,523,577	116,007	2,337,981,534	7.44	20,154
2010	6,908	147,419,991	2,668	50,510,952	120,247	2,434,890,574	4.14	20,249

LIABILITIES / SOLVENCY TEST

MUNICIPAL)

Ratio of Assets to Actuarial Liabilities						
Active Member Contributions	**Retirees Term Vested and Inactives**	**Active Members Employer Fin. Portion**	**Funded Ratio (Assets/Liab. Coverage)**	**Unfunded Actuarial Accrued Liability (UAAL)**	**Covered Payroll**	**UAAL as % of Covered Payroll**
100%	100%	96.24%	98.29%	$ 555,163,368	$7,255,036,000	8%
100	100	88.33	94.70	1,808,020,859	7,867,794,200	23
100	100	84.81	93.30	2,343,135,982	8,134,419,291	29
100	100	81.33	92.18	2,841,047,495	8,069,480,852	35
100	100	71.18	88.21	4,613,949,372	8,603,760,761	54
100	100	60.67	82.78	7,448,467,323	9,287,575,596	80
100	100	50.93	80.36	9,257,418,404	9,971,012,066	93
100	100	46.92	78.62	10,739,762,798	10,542,806,018	102
100	100	11.56	65.02	18,444,602,713	10,714,167,517	172
100	100	6.73	64.14	19,396,735,421	10,657,943,561	182

MARYLAND STATE RETIREMENT
ACCOUNTING STATEMENT
AS OF
(STATE AND

	Teacher's Combined System	Employee's Combined System
1. Actuarial Accrued Liability		
a. Employee Contributions	$ 1,990,818,311	$ 1,257,372,238
b. Retirees, Term Vesteds & Inactives	17,483,857,266	10,257,635,352
c. Active Members	12,488,745,686	7,494,780,055
2. Total Actuarial Accrued Liability (1(a)+1(b)+1(c))	31,963,421,263	19,009,787,645
3. Actuarial Value of Assets	20,908,149,284	11,937,943,927
4. Unfunded Actuarial Accrued Liability (2-3)	$ 11,055,271,979	$ 7,071,843,718
5. Funded Ratio	65.41%	62.80%
6. Annual Payroll	$ 6,254,647,810	$ 4,137,473,794
7. UAAL as % of Payroll	177%	171%
8. Annual Required Contributions (ARC) STATE ONLY	19.91%	20.25%
9. Equivalent Single Amortization Period in Years - STATE ONLY for FY2012	20.769	22.937

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

AND PENSION SYSTEM
INFORMATION
JUNE 30, 2010
MUNICIPAL)

State Police	Judges	LEOPS	CORS	Total MSRPS*
$ 71,633,805	25,035,807	43,380,278	1,025,184	3,389,265,622
1,356,903,794	262,309,323	539,310,017	0	29,900,015,752
294,026,220	138,869,475	367,545,590	11,832,717	20,795,799,744
$1,722,563,819	$426,214,605	$950,235,885	$12,857,901	$54,085,081,118
1,085,281,042	276,642,958	471,727,901	8,600,585	34,688,345,697
$637,282,777	$149,571,647	$478,507,984	$4,257,316	$19,396,735,421
63.00%	64.91%	49.64%	68.89%	64.14%
$81,705,369	$39,960,883	$140,199,243	$3,956,462	$10,657,943,561
780%	374%	341%	108%	182%
70.26%	60.37%	49.26%		20.88%
30.00	18.654	17.270		29.412

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

Summary of Principal Plan Results

	June 30, 2010 (for FY2012)	June 30, 2009 (for FY2011)	% Change
1. Participant Counts			
Active Members	106,273	106,107	0.2%
Retired Members and Beneficiaries	57,539	55,756	3.2%
Vested Former Members	23,017	22,995	0.1%
Total	186,829	184,858	1.1%
Covered Annual Salaries of Active Members	$ 6,254,647,810	$ 6,194,734,040	1.0%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 1,440,590,046	$ 1,394,374,299	3.3%
2. Assets and Liabilities			
Total Actuarial Liability	$31,963,421,263	$31,172,917,174	2.5%
Assets for Valuation Purposes	20,908,149,284	20,605,618,296	1.5%
Unfunded Actuarial Liability (Surplus)	$11,055,271,979	$10,567,298,878	4.6%
Funding Ratio	65.4%	66.1%	
3. Contribution Rates			
Employer Normal Cost Rate	7.23%	7.22%	
UAAL Amortization Rate	12.68%	11.88%	
Total Actuarial Employer Contribution Rate	19.91%	19.10%	
4. Corridor Contribution Rate			
80% of Prior Year Corridor Rate	11.47%	10.52%	
20% of Actuarial Contribution Rate	3.98%	3.82%	
Final Employer Corridor Contribution Rate	15.45%	14.34%	

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

Summary of Principal Plan Results

	June 30, 2010 (for FY2012)	June 30, 2009 (for FY2011)	% Change
1. Participant Counts			
Active Members	87.325	89.380	-2.3%
Retired Members and Beneficiaries	58,893	56,610	4.0%
Vested Former Members	28,477	28,608	-0.5%
Total	174,695	174,598	0.1%
Covered Annual Salaries of Active Members	$ 4,137,473,794	$ 4,249,462,513	-2.6%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 838,069,808	$ 793,268,952	5.6%
2. Assets and Liabilities			
Total Actuarial Liability	$19,009,787,645	$18,517,486,423	2.7%
Assets for Valuation Purposes	11,937,943,927	11,839,115,494	0.8%
Unfunded Actuarial Liability (Surplus)	$ 7,071,843,718	$ 6,678,370,929	5.9%
Funding Ratio	62.8%	63.9%	
3. Contribution Rates			
Employer Normal Cost Rate	6.47%	6.46%	
UAAL Amortization Rate	13.78%	12.27%	
Total Actuarial Employer Contribution Rate	20.25%	18.73%	
4. Corridor Contribution Rate			
80% of Prior Year Corridor Rate	9.35%	7.94%	
20% of Actuarial Contribution Rate	4.05%	3.75%	
Final Employer Corridor Contribution Rate	13.40%	11.69%	

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

Summary of Principal Plan Results

	June 30, 2010 (for FY2012)	June 30, 2009 (for FY2011)	% Change
1. Participant Counts			
Active Members	1,354	1,408	-1.3%
Retired Members and Beneficiaries	2,282	2,226	3.6%
Vested Former Members	77	68	11.5%
Total	3,713	3,702	1.8%
Covered Annual Salaries of Active Members	$ 81,705,369	$ 85,585,708	-1.0%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 96,321,179	$ 94,121,168	7.4%
2. Assets and Liabilities			
Total Actuarial Liability	$1,722,563,819	$1,710,356,297	6.8%
Assets for Valuation Purposes	1,085,281,042	1,119,765,683	-16.6%
Unfunded Actuarial Liability (Surplus)	$ 637,282,777	$ 590,590,614	128.6%
Funding Ratio	63.0%	65.5%	
3. Corridor Contribution Rate			
Employer Normal Cost Rate	25.48%	25.51%	
UAAL Amortization Rate	35.53%	31.52%	
Total Actuarial Employer Contribution Rate	61.01%	57.03%	

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

Summary of Principal Plan Results

	June 30, 2010 (for FY2012)	June 30, 2009 (for FY2011)	% Change
1. Participant Data			
Active Members	294	297	-1.0%
Retired Members and Beneficiaries	351	348	0.9%
Vested Former Members	6	6	0.0%
Total	651	651	0.0%
Covered Annual Salaries of Active Members	$39,960,883	$40,266,330	-0.8%
Annual Retirement Allowances for Retired Members and Beneficiaries	$23,868,484	$23,548,132	1.4%
2. Assets and Liabilities			
Total Actuarial Liability	$426,214,605	$421,038,964	1.2%
Assets for Valuation Purposes	276,642,958	270,869,530	2.1%
Unfunded Actuarial Liability (Surplus)	$149,571,647	$150,169,434	-0.4%
Funding Ratio	64.9%	64.3%	
3. Corridor Contribution Rate			
Employer Normal Cost Rate	31.79%	31.30%	
UAAL Amortization Rate	28.58%	27.77%	
Total Actuarial Employer Contribution Rate	60.37%	59.07%	

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

Summary of Principal Plan Results

	June 30, 2010 (for FY2012)	June 30, 2009 (for FY2011)	% Change
1. Participant Data			
Active Members	2,474	2,445	1.2%
Retired Members and Beneficiaries	1,182	1,067	10.8%
Vested Former Members	198	189	4.8%
Total	3,854	3,701	4.1%
Covered Annual Salaries of Active Members	$140,199,243	$140,071,292	0.1%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 36,041,057	$ 32,688,983	10.3%
2. Assets and Liabilities			
Total Actuarial Liability	$950,235,885	$895,099,496	6.2%
Assets for Valuation Purposes	471,727,901	441,826,566	6.8%
Unfunded Actuarial Liability (Surplus)	$478,507,984	$453,272,930	5.6%
Funding Ratio	49.6%	49.4%	
3. Corridor Contribution Rate			
Employer Normal Cost Rate	17.30%	18.06%	
UAAL Amortization Rate	31.96%	29.61%	
Total Actuarial Employer Contribution Rate	49.26%	47.67%	

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

Summary of Principal Plan Results

	June 30, 2010 (for FY2012)	June 30, 2009 (for FY2011)	% Change
1. Participant Data			
Active Members	66	68	-2.94%
Retired Members and Beneficiaries	0	0	0.00%
Vested Former Members	0	0	0.00%
Total	66	68	-2.94%
Covered Annual Salaries of Active Members	$ 3,956,462	$ 4,047,633	-2.25%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 0	$ 0	0.00%
2. Assets and Liabilities			
Total Actuarial Liability	$12,857,901	$12,272,976	4.77%
Assets for Valuation Purposes	8,600,585	7,373,048	16.65%
Unfunded Actuarial Liability (Surplus)	$ 4,257,316	$ 4,899,928	-13.11%
Funding Ratio	66.9%	60.1%	

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN

Teachers' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	10,396	$ 638,864,807	$ 61,453	6.39 %
2002	9,270	604,172,528	65,175	6.06
2003	8,199	555,522,563	67,755	3.96
2004	7,197	502,487,678	69,819	3.05
2005	6,255	464,693,323	74,291	6.41
2006	5,449	413,849,937	75,950	2.23
2007	4,788	383,619,438	80,121	5.49
2008	4,125	352,954,397	85,565	6.79
2009	3,554	306,096,545	86,127	0.66
2010	3,111	269,775,400	86,717	0.68

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	82,901	$ 3,355,335,942	$ 40,474	4.96 %
2002	87,086	3,718,881,395	42,704	5.51
2003	89,099	3,966,679,839	44,520	4.25
2004	88,765	4,113,119,415	46,337	4.08
2005	91,535	4,590,698,122	50,152	8.23
2006	94,869	4,855,335,579	51,179	2.04
2007	98,789	5,326,145,893	53,914	5.34
2008	101,836	5,764,636,027	56,607	4.99
2009	102,553	5,888,637,495	57,420	1.44
2010	103,162	5,984,872,410	58,014	1.03

Employees' Retirement

(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	11,962	$ 457,899,607	$ 38,280	5.28 %
2002	11,722	470,462,717	40,135	4.85
2003	11,347	462,088,968	40,723	1.47
2004	10,489	438,455,277	41,801	2.65
2005	9,869	423,715,070	42,934	2.71
2006	10,121	467,808,791	46,222	7.66
2007	9,980	472,525,475	47,347	2.44
2008	9,740	472,800,066	48,542	2.52
2009	9,962	483,871,203	48,572	0.06
2010	9,665	463,375,639	47,944	-1.29

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Employees' Pension
(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	76,024	$ 2,626,959,051	$ 34,554	6.06 %
2002	78,584	2,886,208,074	36,728	6.29
2003	77,939	2,961,965,306	38,004	3.47
2004	75,955	2,964,093,317	39,024	2.68
2005	76,787	3,187,380,273	41,509	6.37
2006	76,979	3,325,316,541	43,198	4.07
2007	78,719	3,543,695,246	45,017	4.21
2008	79,462	3,692,212,569	46,465	3.22
2009	79,418	3,765,664,905	47,416	2.05
2010	77,660	3,674,098,155	47,310	-0.22

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	281	$ 30,554,439	$ 108,735	2.07 %
2002	281	31,824,096	113,253	4.16
2003	287	33,168,859	115,571	2.05
2004	283	33,149,832	117,137	1.36
2005	282	33,897,984	120,206	2.62
2006	296	35,939,104	121,416	1.01
2007	297	37,638,491	126,729	4.38
2008	286	37,943,327	132,669	4.69
2009	297	40,266,330	135,577	2.19
2010	294	39,960,883	135,921	0.25

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	1,578	$ 79,382,508	$ 50,306	3.67 %
2002	1,589	81,141,520	52,323	4.01
2003	1,542	80,838,519	52,424	0.19
2004	1,445	77,531,613	53,655	2.35
2005	1,439	77,610,367	53,934	0.52
2006	1,441	80,648,855	55,967	3.77
2007	1,416	83,190,937	58,751	4.97
2008	1,426	86,464,247	60,634	3.21
2009	1,408	85,585,708	60,785	0.25
2010	1,354	81,705,369	59,946	0.71

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Law Enforcement Officers' Pension
(STATE AND MUNICIPAL)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2001	1,318	$ 60,438,291	$ 45,856	3.01 %
2002	1,410	65,915,519	46,748	1.95
2003	1,481	69,469,540	46,907	0.34
2004	1,675	78,628,672	46,942	0.07
2005	1,826	88,925,957	48,700	3.75
2006	2,063	106,668,684	51,706	6.17
2007	2,217	122,015,164	55,036	6.44
2008	2,327	133,445,391	57,347	4.20
2009	2,445	140,071,292	57,289	-0.10
2010	2,474	140,199,243	56,669	-1.08

Correctional Officers' Retirement System
(MUNICIPAL)

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

Statistical Section

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

The schedules beginning on page 95 show financial trend information to assist users in understanding and assessing how the MSRPS's financial position has changed over the past 10 years. The financial trend schedules presented are:

- Changes in Net Assets
- Benefits Expense by Type

The schedules beginning on page 92 show demographic and economic information and operating information. The demographic and economic information is intended to assist users in understanding the environment in which MSRPS operates. The operating information is intended to provide contextual information about MSRPS's operations to assist readers in using financial statement information.
The demographic and economic information and the operating information presented include:

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

TEN-YEAR HISTORY OF CHANGES IN NET ASSETS

for the Years Ended June 30,

(Expressed in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions										
Employer contributions	$ 634,309	$ 581,371	$ 606,900	$ 632,052	$ 670,554	$ 720,876	$ 833,782	$ 1,047,963	$ 1,109,563	$1,308,921
Members contributions	189,769	199,304	207,584	204,158	208,997	215,077	319,274	420,461	532,100	535,581
Net Investment income	(3,138,763)	(2,265,315)	756,747	4,202,632	2,766,389	3,225,649	5,924,070	(2,139,662)	(7,355,906)	4,016,358
Total Additions	(2,314,685)	(1,484,640)	$1,571,231	5,038,842	3,645,940	4,161,602	7,077,126	(671,238)	(5,714,243)	5,860,860
Deductions										
Benefit payments	1,272,804	1,372,325	1,474,257	1,570,622	1,697,397	1,829,468	1,965,872	2,120,463	2,279,170	2,445,540
Refunds	16,977	17,476	16,310	11,942	19,162	16,455	16,021	16,223	22,325	33,531
Administrative expenses	24,823	20,064	21,352	17,376	22,386	18,579	21,271	23,147	27,499	28,627
Total Deductions	1,314,604	1,409,865	1,511,919	1,599,940	1,738,945	1,864,502	2,003,164	2,159,833	2,328,994	2,507,698
Changes in net assets	$(3,629,289)	$(2,894,505)	$ 59,312	$3,438,902	$1,906,995	$2,297,100	$5,073,962	$(2,831,071)	$(8,043,237)	$ 3,353,162

SCHEDULE OF BENEFIT EXPENSE BY TYPE

(Expressed In Thousands)

Fiscal Year	Age & Service Benefits: Retirees	Age & Service Benefits: Survivors	Death In Service Pre-Retirement Benefits	Disability Benefits: Retirees: Accidental	Disability Benefits: Retirees: Ordinary	Disability Benefits: Survivors	Death After Retirement Post-Retirement Benefits	Total
2001	$ 1,039,129	$ 66,756	$ 7,561	$ 29,230	$ 103,575	$ 15,599	$ 10,954	$ 1,272,804
2002	1,116,884	72,211	7,908	32,642	113,107	16,836	12,738	1,372,326
2003	1,197,037	78,064	7,443	36,113	122,967	18,355	14,278	1,474,257
2004	1,275,254	82,862	8,515	39,777	131,115	19,798	13,301	1,570,622
2005	1,377,977	88,895	8,369	43,933	142,872	21,318	14,033	1,697,397
2006	1,479,107	101,395	8,655	48,351	152,900	24,036	15,124	1,829,468
2007	1,597,722	102,972	10,133	52,505	166,561	24,695	11,284	1,965,872
2008	1,714,059	118,215	8,908	59,908	176,802	28,052	14,519	2,120,463
2009	1,907,483	94,654	18,133	95,933	148,098	14,845	–	2,279,146
2010	2,045,795	100,953	18,857	102,032	161,836	16,068	–	2,445,540

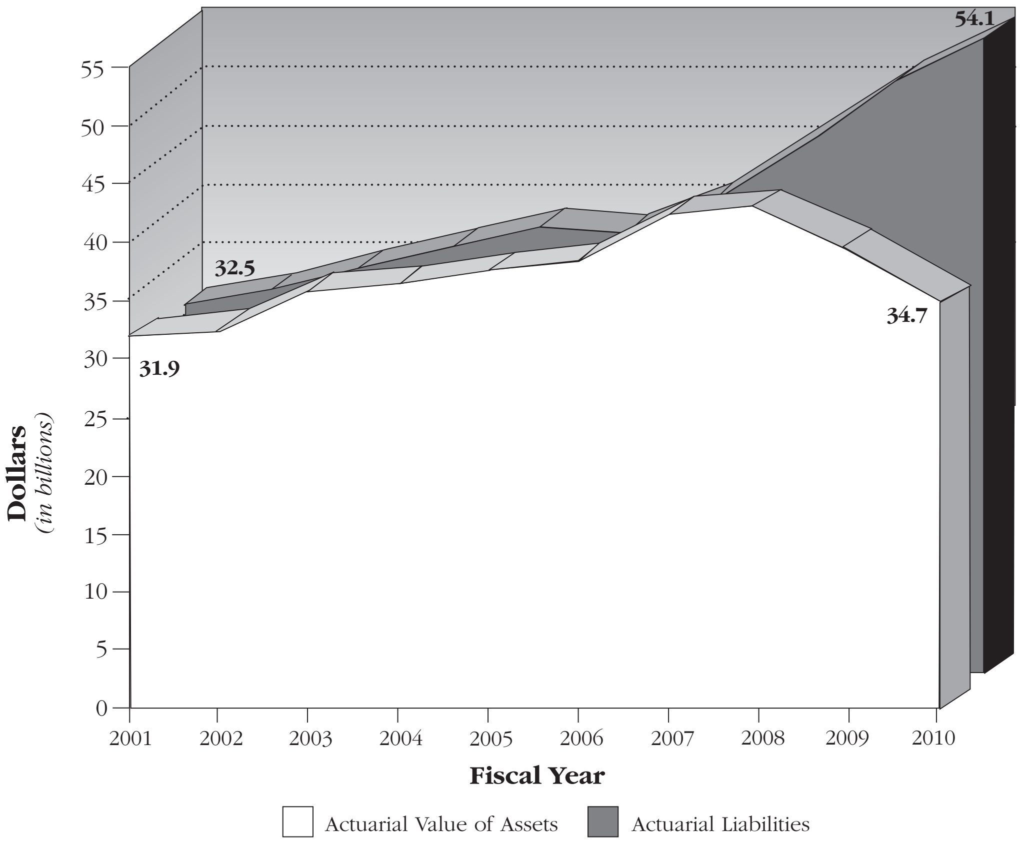
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

Average Benefit Payments – *Last Ten Years*

Years Credited Service

	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/2000 to 6/30/2001							
Average monthly benefit	$ 301	$ 387	$ 688	$ 1,066	$ 1,732	$ 2,496	$ 2,211
Monthly final average salary	$ 2,091	$ 2,260	$ 2,822	$ 3,201	$ 3,617	$ 4,419	$ 3,761
Number of retired members	183	575	584	657	924	1,560	670
Period 7/1/2001 to 6/30/2002							
Average monthly benefit	$ 327	$ 423	$ 739	$ 1,111	$ 1,534	$ 2,495	$ 2,349
Monthly final average salary	$ 1,951	$ 2,389	$ 2,999	$ 3,365	$ 3,689	$ 4,584	$ 4,091
Number of retired members	178	555	645	662	856	1,471	685
Period 7/1/2002 to 6/30/2003							
Average monthly benefit	$ 282	$ 463	$ 750	$ 1,087	$ 1,605	$ 2,527	$ 2,287
Monthly final average salary	$ 2,062	$ 2,521	$ 3,195	$ 3,597	$ 3,859	$ 4,774	$ 4,200
Number of retired members	242	595	671	731	884	1,453	858
Period 7/1/2003 to 6/30/2004							
Average monthly benefit	$ 295	$ 452	$ 767	$ 1,066	$ 1,616	$ 2,520	$ 2,433
Monthly final average salary	$ 2,416	$ 2,634	$ 3,287	$ 3,640	$ 4,000	$ 4,949	$ 4,585
Number of retired members	273	669	669	795	1,009	1,530	1,172
Period 7/1/2004 to 6/30/2005							
Average monthly benefit	$ 349	$ 509	$ 742	$ 1,105	$ 1,591	$ 2,510	$ 2,361
Monthly final average salary	$ 2,461	$ 2,818	$ 3,392	$ 3,882	$ 4,136	$ 5,071	$ 4,615
Number of retired members	254	710	689	878	986	1,552	1,368
Period 7/1/2005 to 6/30/2007							
Average monthly benefit	$ 303	$ 525	$ 819	$ 1,360	$ 1,555	$ 2,426	$ 2,439
Monthly final average salary	$ 2,409	$ 2,852	$ 3,425	$ 4,031	$ 4,183	$ 5,147	$ 4,782
Number of retired members	261	713	702	850	872	1,454	1,319
Period 7/1/2006 to 6/30/2007							
Average monthly benefit	$ 457	$ 637	$ 868	$ 1,253	$ 1,696	$ 2,499	$ 2,256
Monthly final average salary	$ 3,202	$ 3,425	$ 3,733	$ 4,249	$ 4,524	$ 5,435	$ 5,052
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2007 to 6/30/2008							
Average monthly benefit	$ 419	$ 603	$ 993	$ 1,367	$ 1,732	$ 2,594	$ 2,727
Monthly final average salary	$ 2,811	$ 3,172	$ 3,825	$ 4,510	$ 4,617	$ 5,478	$ 5,224
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2008 to 6/30/2009							
Average monthly benefit	$ 534	$ 577	$ 868	$ 1,232	$ 1,657	$ 1,973	$ 2,925
Monthly final average salary	$ 2,604	$ 3,273	$ 3,638	$ 4,222	$ 4,781	$ 4,924	$ 5,679
Number of retired members	191	751	625	757	872	678	2,171
Period 7/1/2009 to 6/30/2010							
Average monthly benefit	$ 505	$ 542	$ 838	$ 1,246	$ 1,670	$ 1,971	$ 2,933
Monthly final average salary	$ 2,902	$ 3,425	$ 3,636	$ 4,392	$ 4,814	$ 5,097	$ 5,811
Number of retired members	271	834	662	690	873	698	2,266

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF EMPLOYER CONTRIBUTION RATES BY PLAN

	State						Participating Governmental Units (PGU)				
Fiscal Year	**Combined State Rate**	**Teachers' Combined Rate**	**Employees' Combined Rate**	**Judges' Retirement**	**State Police Retirement**	**Law Enforcement Officers' Pension**	**Combined PGU Rate**	**Law Enforcement Officers' Pension**	**Employees' Retirement**	**Employees' Pension**	**Correctional Officers' Retirement**
2001	9.31%	10.95%	5.71%	46.75%	8.44%	23.38%	2.95%	N/A	7.81%	2.81%	– %
2002	7.98	9.35	4.73	42.66	5.83	32.41	1.94	31.83%	6.75	1.75	–
2003	8.01	9.35	4.73	43.92	5.78	36.10	1.95	29.59	6.95	1.95	–
2004	8.06	9.35	4.73	43.74	7.58	35.13	2.87	30.21	7.59	2.59	–
2005	7.97	9.35	4.73	36.72	–	37.73	5.28	32.10	9.87	4.87	–
2006	8.46	9.35	5.76	41.12	8.22	38.47	5.36	32.67	9.80	4.80	–
2007	9.18	9.71	6.83	42.43	13.83	40.60	N/A	33.18	10.68	5.68	–
2008	11.10	11.60	8.86	44.12	15.44	41.74	N/A	36.80	10.27	5.27	–
2009	11.14	11.70	8.73	43.61	20.53	36.99	N/A	30.53	8.87	3.87	-
2010	12.62	13.15	9.93	49.89	30.79	38.63	N/A	30.03	9.05	4.05	8.41

SCHEDULE OF RETIRED MEMBERS BY TYPE
as of June 30, 2010

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	2	3	4	5	6	7
1 - 300	14,235	11,107	1,202	974	23	25	597	307
301 - 600	14,705	9,044	2,477	1,080	78	64	1,525	438
601 - 900	12,941	7,427	2,135	1,008	95	97	1,885	294
901 - 1,200	11,348	6,846	1,739	795	97	202	1,472	197
1,201 - 1,500	10,795	6,841	1,407	676	94	355	1,268	154
1,501 - 1,800	9,089	5,781	1,245	511	78	397	1,006	71
1,801 - 2,100	8,133	5,388	1,110	384	68	419	705	59
2,101 - 2,400	7,452	5,214	916	309	74	369	543	28
2,401 - 2,700	6,398	4,569	761	234	77	348	389	20
2,701 - 3,000	5,822	4,410	609	205	65	236	282	15
Over 3000	19,328	16,338	909	555	121	944	430	31
	120,247	82,966	14,510	6,730	872	3,456	10,100	1,613

Type of Retirement:

1 – Normal retirement for age and service
2 – Early retirement
3 – Survivor payment – normal or early retirement
4 – Survivor payment – death in service
5 – Accidental disability retirement
6 – Ordinary disability retirement
7 – Survivor payment – disability retirement

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
Basic	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Opt. 6	Opt. 7
6,537	3,180	1,754	1,003	854	479	414	14
5,837	2,880	1,794	1,612	1,370	445	753	14
4,787	2,129	1,557	1,634	1,632	366	828	10
3,949	1,727	1,492	1,518	1,505	379	771	6
3,355	1,603	1,712	1,489	1,455	442	733	6
2,734	1,345	1,491	1,242	1,234	402	637	5
2,460	1,603	1,357	1,137	1,133	309	569	6
2,377	1,021	1,153	1,001	1,086	250	559	4
2,227	786	974	811	1,032	184	380	3
1,935	697	981	736	877	227	361	6
7,584	1,923	2,367	2,724	3,211	392	1,094	34
43,782	18,452	16,632	14,908	15,389	3,875	7,100	109

Option Selected:

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

Opt. 1 – Guarantees return of the present value of the retirement benefit less the total payments already paid to the member.

Opt. 2 – Guarantees the same payment to the designated beneficiaries for their lifetime.

Opt. 3 – Guarantees one half the member's payment to the designated beneficiaries for their lifetime.

Opt. 4 – Guarantees return of the member's accumulated contributions and interest less the member's accumulated reserves already paid.

Opt. 5 – Guarantees the same payment to the designated beneficiaries for their lifetime, unless the beneficiaries predecease the respective members. Allowance then increases to the basic.

Opt. 6 – Guarantees one half the member's payment to the designated beneficiaries for their lifetime, unless the beneficiaries predecease the respective members. Allowance then increases to the basic.

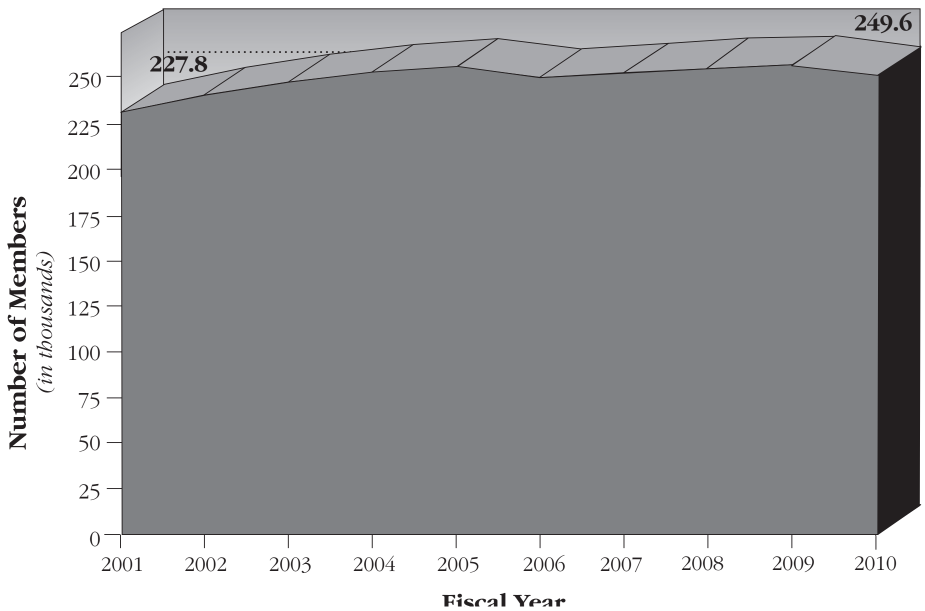
Opt. 7 – Special option calculation performed by actuary.

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

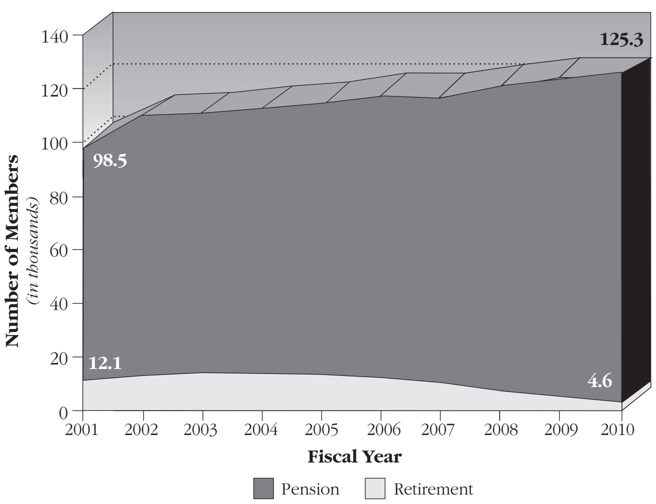
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Correctional Officers' Retirement
2001	227,799	12,126	98,508	13,312	100,420	294	1,602	1,367	–
2002	234,478	10,913	103,483	13,053	103,429	291	1,616	1,476	–
2003	235,594	9,776	106,383	12,696	103,151	300	1,583	1,543	–
2004	232,772	8,675	107,092	11,800	101,581	297	1,498	1,756	–
2005	235,714	7,606	110,327	11,160	102,845	297	1,486	1,930	–
2006	240,583	6,678	114,693	11,398	103,784	310	1,499	2,178	–
2007	248,289	5,963	120,333	11,240	106,566	310	1,470	2,344	–
2008	251,050	5,217	123,562	10,906	107,021	294	1,487	2,501	–
2009	251,571	4,550	124,552	11,027	106,961	365	1,414	2,634	68
2010	249,561	4,012	125,278	10,664	105,138	300	1,431	2,672	66

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

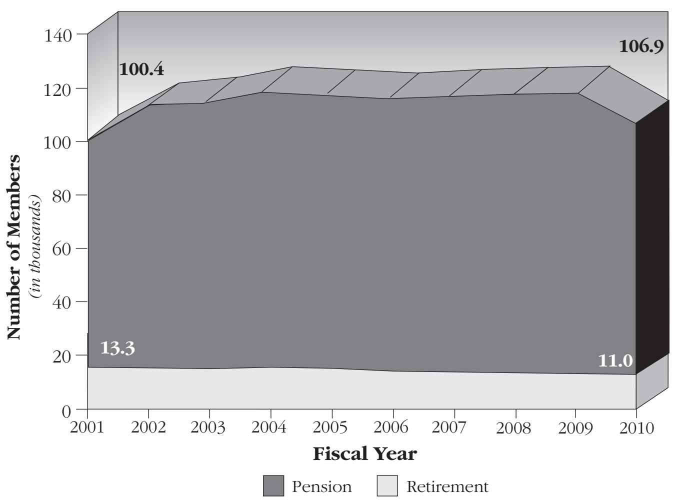
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

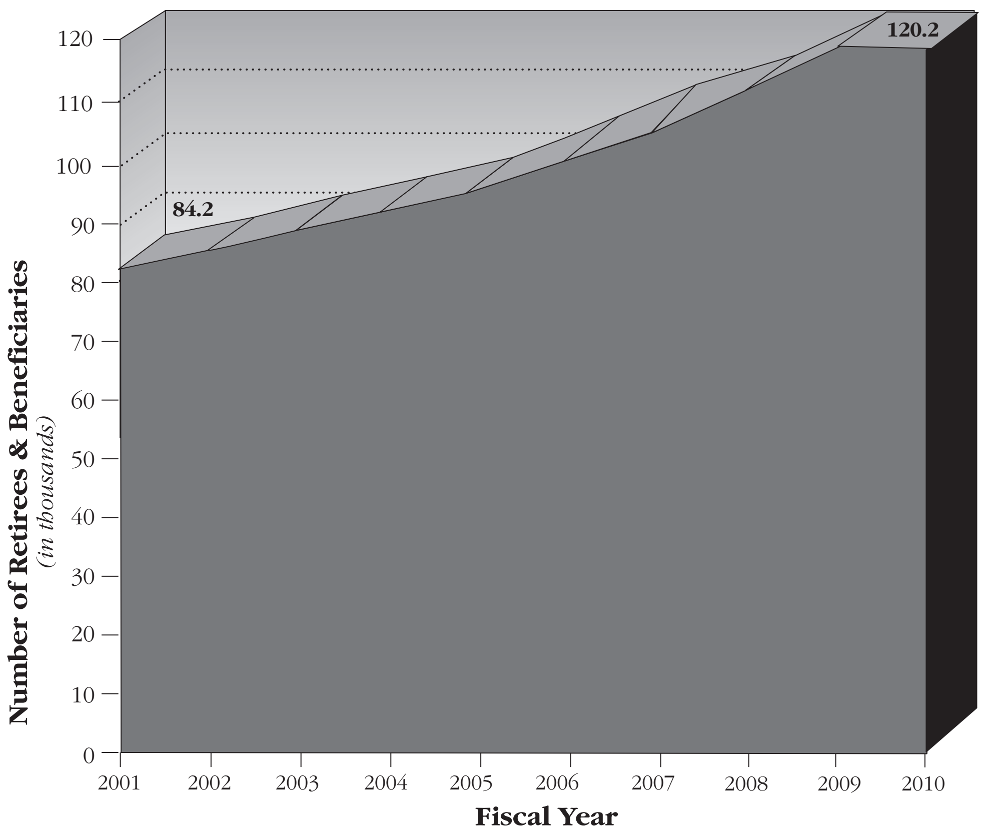


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension
2001	84,185	29,599	10,527	25,212	16,702	297	1,518	309
2002	87,367	29,989	11,931	24,904	18,205	311	1,598	403
2003	90,803	30,305	13,370	24,662	19,929	306	1,695	503
2004	94,880	30,598	15,093	24,559	21,913	309	1,790	581
2005	100,196	30,921	17,170	24,633	24,525	316	1,909	708
2006	103.831	31,138	19,144	24,271	26,216	330	1,937	782
2007	108,355	31,023	21,016	24,408	28,631	335	2,063	863
2008	112,422	30,955	23,030	24,197	30,723	342	2,149	958
2009	116,007	30,598	25,158	23,778	32,832	348	2,226	1,067
2010	120,247	30,270	27,269	23,475	35,418	351	2,282	1,182

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

TOTAL SYSTEM RETIREES AND BENEFICIARIES



TEN-YEAR HISTORY OF REVENUES BY SOURCE AND EXPENSES BY TYPE

(Expressed in Thousands)

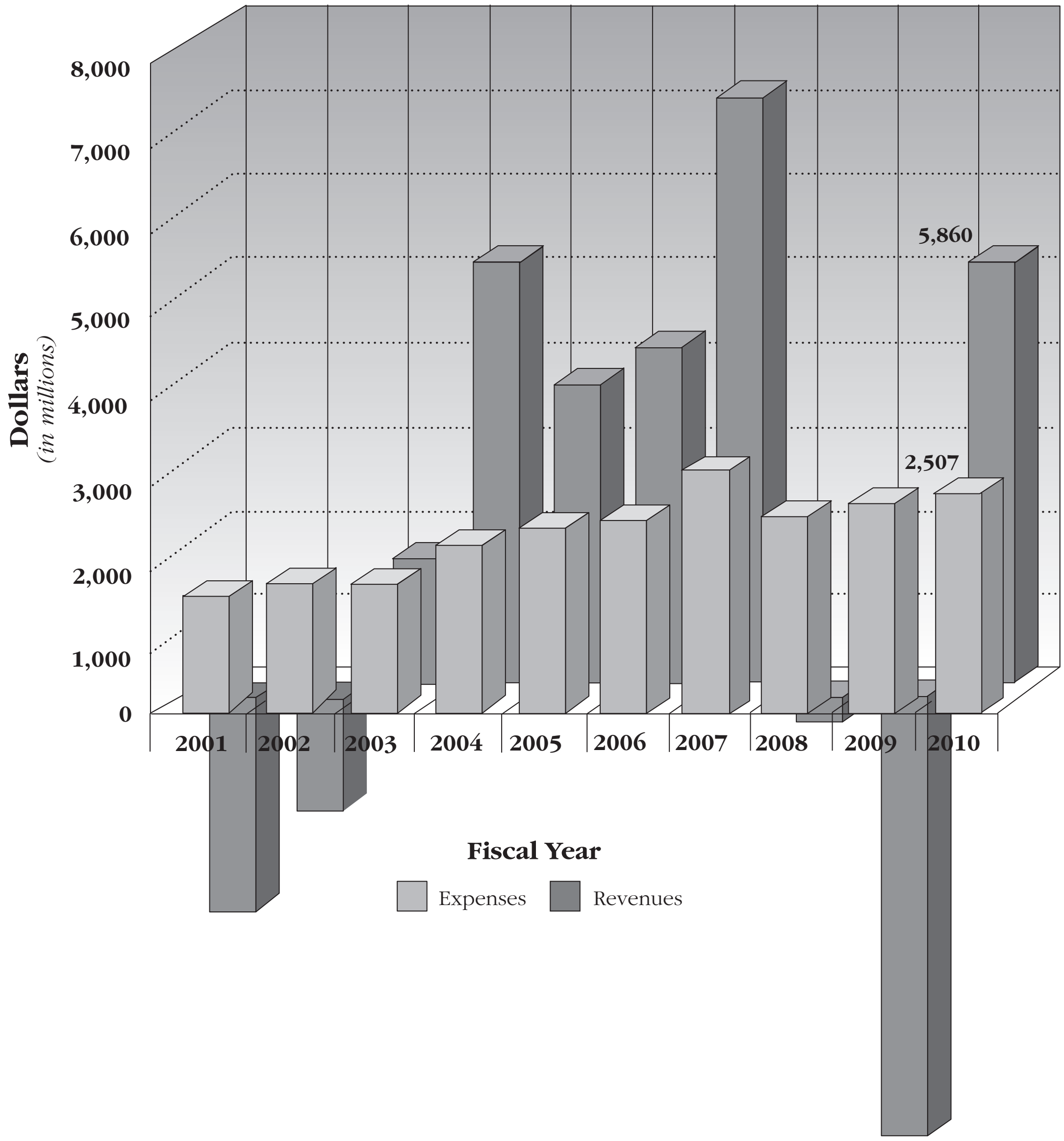
REVENUES

Fiscal Year	Members' Contributions	Employers' and Other Contributions	Annual Covered Payroll	Employers' and Other Contributions as a Percent of Covered Payroll	Net Investment Income	Total Revenues
2001	$ 189,769	$ 717,576	$ 7,255,036	8.74 %	$ (3,138,763)	$ (2,231,418)
2002	199,304	579,718	7,867,794	7.39	(2,265,315)	(1,486,293)
2003	207,584	606,900	8,134,419	7.46	756,747	1,571,231
2004	204,158	632,052	8,069,481	7.83	4,202,632	5,038,842
2005	208,997	670,554	8,603,761	7.79	2,766,389	3,645,940
2006	215,077	720,876	9,089,951	7.93	3,225,649	4,161,602
2007	319,274	833,782	9,971,012	8.36	5,924,070	7,077,126
2008	420,461	1,047,962	10,542,806	9.94	(2,139,661)	(671,238)
2009	532,100	1,109,563	10,714,167	10.36	(7,355,906)	(5,714,243)
2010	535,581	1,308,921	10,657,944	12.28	4,016,359	5,860,861

EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
2001	$ 1,272,804	$ 24,823	$ 16,977	$ 1,314,604
2002	1,372,325	20,064	17,476	1,409,865
2003	1,474,257	21,352	16,310	1,511,919
2004	1,570,622	17,376	11,942	1,599,940
2005	1,697,397	22,386	19,162	1,738,945
2006	1,829,468	18,579	16,455	1,864,502
2007	1,965,872	21,271	16,021	2,003,164
2008	2,120,463	23,147	16,223	2,159,833
2009	2,279,170	27,499	22,325	2,328,994
2010	2,445,540	28,627	33,531	2,507,698

TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2010			2001		
	Covered Employees	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Participating Government						
State of Maryland	323,741	1	88%	274,003	1	88%
All other (Participating Municipalities)	46,067	2	12%	37,981	2	12%
Total System	369,808			311,984		

Governmental Units Participating in the Systems

as of June 30, 2010

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

Withdrawn Governmental Units

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

SRPS

Plan Summary

Teachers' Retirement System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	3,111	3,554
Active Non-vested	–	–
Vested Former Members	901	996
Retired Members	30,271	30,598
Active Members		
Number	3,111	3,554
Average Age	60.5	59.7
Average Years of Service	35.0	34.1
Average Annual Salary	$ 86,717	$ 86,127
Retirees & Beneficiaries		
Number	30,271	30,598
Average Age	74.3	73.8
Average Monthly Benefit	$ 2,630	$ 2,600

THE TEACHERS' RETIREMENT SYSTEM (TRS) was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Prior to January 1, 1980, membership in the TRS was a condition of employment for State and local teachers and certain board of education, public library and community college employees, unless those who were eligible elected to participate in an optional retirement program. Effective July 1, 1971 Baltimore City teachers and retired teachers were included in the TRS.

Effective January 1, 1980, the TRS was effectively closed to new membership when the Teachers' Pension System (TPS) was established. Individuals who were members of the TRS on December 31, 1979, continue their TRS membership unless, and until, they elected to transfer to the TPS prior to January1, 2005.

Member Contributions

All member contributions to the TRS are based on a specified percentage of annual earnable compensation. Members who elected in 1984 to receive unlimited future cost-of-living adjustments (COLA) contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLA's contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

All other TRS members contribute **in accordance with the provisions of the Teachers' Pension System**. This option is referred to as Selection C (Combination Formula), that provides a two-part benefit calculation upon retirement. The employee contribution for Section C, Part 2 is 5%.

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

Service Retirement Allowances

Eligibility — TRS members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligibility service regardless of age.

Allowances — Full service retirement allowances equal 1/55 (**1.818**%) of the highest three years' average final **compensation** (AFC) multiplied by the number of years and months of accumulated creditable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement. Service is accrued based on a full normal school year (ten months).

Early Retirement Allowances

Eligibility — TRS members are eligible for early service retirement allowances upon accumulating at least 25 years of eligibility service prior to attaining age 60.

Allowances — Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the earlier of the date on which the member reaches age 60, or the date on which the member would have completed 30 years of service. The maximum reduction for a TRS member is 30 percent. The maximum reduction for a TRS member who elected Selection C is 30% on the first part and 42% on the second part of the benefit calculation.

Ordinary Disability Retirement Allowances

Eligibility — TRS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability retirement allowances generally equal 1/55 (1.818%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than 1.818% of AFC for each year of creditable service the members would have received had they continued to work until age 60.

Accidental Disability Retirement Allowances

Eligibility — TRS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, TRS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death for TRS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named as sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

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

Vested Retirement Allowances

Eligibility — TRS members are eligible for vested retirement allowances after separation from service and upon reaching normal retirement age, provided that at least five years of eligibility service was accumulated prior to separation.

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

If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are effective July 1st of each year and are applied to all allowances payable for the year. However, the method by which the annual COLAs are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984). Each option is explained in the following column.

Selection A (Unlimited COLA) — TRS members who elected Selection A, agreed to contribute no more than 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) — TRS members who elected Selection B, agreed to contribute at the required TPS employee contribution rate of earnable compensation in return for COLAs that are limited to 5% annually after retirement.

Selection C (Combination Formula) — TRS members who elected Selection C, agreed to contribute at the required TPS employee contribution rate of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts.

Part 1: The COLAs are unlimited unless the member elected Selection B prior to electing Selection C, in which case COLAs are limited to 5%.

Part 2: The COLAs are limited to 3%.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

Workers' Compensation Benefits Reduction

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

Teachers' Pension System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	75,194	71,208
Active Non-vested	27,968	31,345
Vested Former Members	22,116	21,999
Retired Members	27,268	25,158
Active Members		
Number	103,162	102,553
Average Age	44.6	44.3
Average Years of Service	11.5	11.2
Average Annual Salary	$ 58,014	$ 57,420
Retirees & Beneficiaries		
Number	27,268	25,158
Average Age	67.7	67.2
Average Monthly Benefit	$ 1,483	$ 1,457

The Teachers' Pension System (TPS) was established on January 1, 1980 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the TPS is a condition of employment for all State and local teachers and certain board of education, public library and community college employees (unless those who are eligible elect to participate in an optional retirement program). As of July 1, 2006, all TPS members, except for those who transfer from the TRS after April 1, 1998, are members of the Teachers' Pension System - Alternate Contributory Pension Selection (ACPS).

Member Contributions

All ACPS members are required to contribute 5% of earnable compensation during FY2010.

Service Pension Allowances

Eligibility — ACPS members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:

- age 62, & five years of eligibility service
- age 63, & four years of eligibility service
- age 64, & three years of eligibility service
- age 65 or older, & two years of eligibility service

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

Early Service Pension Allowances

Eligibility — ACPS members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Allowances — Early service pension allowances equal the amount payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the members reach age 62. The maximum reduction is 42 percent.

Ordinary Disability Pension Allowances

Eligibility — ACPS members are eligible for ordinary disability pension allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Pension Allowances

Eligibility — ACPS members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, ACPS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death of ACPS members equals the members' annual earnable compensation on the date of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named as sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

If at the time of death, the members had:

- accrued at least 25 years of eligibility service, or
- attained age 55 with at least 15 years of eligibility service, or
- attained age 62, then

the survivor's allowance is determined as if the members had been eligible to retire, and had in fact retired.

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

Vested Pension Allowances

Eligibility — ACPS members are eligible for vested pension allowances after separation from service and upon reaching age 62, provided that at least five years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

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

If members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances for ACPS members are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and, are compounded annually. The System limits the increase a retiree may receive to a maximum of 3%.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

Workers' Compensation Benefits Reduction

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

Employees' Retirement System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	6,243	6,461
Active Non-vested	3,422	3,501
Vested Former Members	999	1,065
Retired Members	23,475	23,778
Active Members		
Number	9,665	9,962
Average Age	43.9	43.8
Average Years of Service	13.6	13.8
Average Annual Salary	$ 47,944	$ 48,572
Retirees & Beneficiaries		
Number	23,475	23,778
Average Age	72.8	72.6
Average Monthly Benefit	$ 1,557	$ 1,530

THE EMPLOYEES' RETIREMENT SYSTEM (ERS) was established on October 1, 1941 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Prior to January 1, 1980, membership in the ERS was a condition of employment for all State employees (other than those eligible for participation in another system) and employees of participating governmental units. For certain elected and appointed officials, participation in ERS was optional.

Effective January 1, 1980, the ERS was effectively closed to new membership when the Employees' Pension System (EPS) was established. Individuals who were members of the ERS on December 31, 1979, continue their ERS membership unless, and until, they elect to transfer to the EPS, prior to January 1, 2005..

Member Contributions

All member contributions to the ERS are based on a specified percentage of annual earnable compensation. Members who elected in 1984 to receive unlimited future COLAs contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on their date of enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLAs contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

Members who are State employees as well as members whose employer elected to participate in the Employees' Pension System contribute in accordance with the provisions of the Employees' Pension System elected by the employer. This option is referred to as Selection C (Combination Formula). The employee contribution for Section C, Part 2 is 5%.

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

Service Retirement Allowances

Eligibility — ERS members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligibility service regardless of age.

Allowances — Full service retirement allowances equal 1/55 (1.818%) of the highest three years' AFC multiplied by the number of years and months of accumulated creditable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

Early Retirement Allowances

Eligibility — ERS members are eligible for early service retirement allowances upon accumulating at least 25 years of eligibility service prior to attaining age 60.

Allowances — Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the earlier of the date on which the member reaches age 60, or the date on which the member would have completed 30 years of service. The maximum reduction for an ERS member is 30 percent. The maximum reduction for an ERS member who elected Selection C is 30% on the first part and 42% on the second part of the benefit calculation.

Ordinary Disability Retirement Allowances

Eligibility — ERS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability retirement allowances generally equal 1/55 (**1.818%**%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than **1.818%** of AFC for each year of creditable service the members would have received had they continued to work until age 60.

Accidental Disability Retirement Allowances

Eligibility — ERS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, ERS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death for ERS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

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

Vested Retirement Allowances

Eligibility — ERS members are eligible for vested retirement allowances after separation from service and upon reaching normal retirement age, provided that at least five years of eligibility service was accumulated prior to separation.

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

If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year. However, the method by which the annual COLAs are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service for members who were inactive on July 1, 1984). Each option is explained below.

Selection A (Unlimited COLA) — ERS members who elected Selection A, agreed to contribute no more than 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) — ERS members who elected Selection B, agreed to contribute no more than 5% of earnable compensation in return for COLAs that are limited to 5% annually after retirement.

Selection C (Combination Formula) — ERS members who elected Selection C, agreed to contribute at the required EPS employee contribution rate of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts:

Part 1: The COLAs are unlimited unless the members elected Selection B prior to electing Selection C, in which case COLAs are limited to 5%.

Part 2: Generally, the COLAs are limited to 3%; however, if the employers participate in the Non-Contributory Pension System, the COLA's are limited to 3% of the initial allowance.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLA's) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

Workers' Compensation Benefits Reduction

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

Miscellaneous Provisions for Members of the Maryland General Assembly

Upon attaining age 60 with at least eight years of eligibility service, members of the Maryland General Assembly are eligible for a service retirement allowance. The allowance is equal to 3% of the current salary for an active legislator multiplied by the number of years of accumulated creditable service (to a maximum of 22 years, 3 months). The maximum benefit payable is two-thirds of the current legislative salary.

Reduced benefits are payable upon attaining age 50 with at least eight years of eligibility service. Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the date on which the member reaches age 60.

Legislators contribute 5% of annual earnable compensation during the first 22 years and 3 months of service, after which no employee contributions are required. If legislators are separated from service before accumulating eight years of eligibility service, they may elect to continue to contribute an amount equal to the combined member and employer contributions until the date the members would have completed eight years of eligibility service. By doing so, such legislators would be eligible for a retirement allowance equal to 24% of the current salary for an active legislator, payable at age 60 (or a reduced benefit upon attaining age 50).

Legislators who have a minimum 8 years of service and who are certified as disabled may resign their positions and receive a normal service retirement allowance. Upon the death of a legislator, the surviving spouse receives 50% of the amount to which the legislator would have been entitled. However, the surviving spouse of a legislator who dies in office with fewer than eight years of eligibility service will receive a lump sum death benefit equal to the sum of the legislator's annual earnable compensation at the time of death, plus accumulated contributions.

Legislators' retirement allowances are adjusted based on changes in the salaries of current members of the General Assembly.

Miscellaneous Provisions for State Correctional Officers

State correctional officers, within certain grades, as well as dietary, maintenance and supply correctional officers, become members of the Correctional Officers' Retirement System (CORS) as a condition of employment. Correctional officers are eligible for normal service retirement allowances upon accumulating 20 years of eligibility service. Members are eligible to receive vested retirement allowance payments upon attaining age 55. For administrative convenience, the CORS is accounted for as a component of the ERS.

Employees' Pension System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	56,680	56,009
Active Non-vested	20,980	23,409
Vested Former Members	27,478	27,543
Retired Members	35,418	32,832
Active Members		
Number	77,660	79,418
Average Age	48.1	47.8
Average Years of Service	12.8	12.5
Average Annual Salary	$ 47,310	$ 47,415
Retirees & Beneficiaries		
Number	35,418	32,832
Average Age	67.5	67.2
Average Monthly Benefit	$ 940	$ 905

The Employees' Pension System (EPS)

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

Non-Contributory Pension System (NCPS)

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

Employees' Contributory Pension System (ECPS)

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

Alternate Contributory Pension Selection (ACPS)

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

Member Contributions

NCPS — Members were required to contribute 5% of earnable compensation in excess of the social security wage base.
ECPS — Members are required to contribute 2% of earnable compensation.
ACPS — Members were required to contribute 5% of earnable compensation.

Service Pension Allowances

Eligibility — **All EPS** members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:

- age 62, & five years of eligibility service
- age 63, & four years of eligibility service
- age 64, & three years of eligibility service
- age 65 or older, & two years of eligibility service

Allowances

NCPS - Full service pension allowances equal .8% of the highest three consecutive years AFC up to the SSIL, plus 1.5% of the AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For purposes of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 years immediately prior to the year of retirement.

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

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

Early Service Pension Allowances

Eligibility — **All EPS** members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Allowances — Early service pension allowances equal the amount payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the member reaches age 62. The maximum reduction is 42 percent.

Ordinary Disability Pension Allowances

Eligibility — **All EPS** members are eligible for ordinary disability pension allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Pension Allowances

Eligibility — All EPS members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, EPS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death of all EPS members equals the members' annual earnable compensation on the date of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated as payment under Option 2 (100% survivor option).

If at the time of death, the members had:

- accrued at least 25 years of eligibility service, or
- attained age 55 with at least 15 years of eligibility service, or
- attained age 62, then

the survivor's allowance is determined as if the members had been eligible to retire.

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

Vested Pension Allowances

Eligibility — All EPS members are eligible for vested pension allowances after separation from service and upon reaching age 62, provided that at least five years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

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

EPS members who elect to withdraw their accumulated contributions, remain eligible to receive the employer-provided share of the vested benefit. If EPS members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

Cost of Living Adjustments

Retirement allowances for all EPS members are adjusted each year based on the Consumer Price Index. The Cost of Living Adjustments (COLA) are effective July 1st of each year.

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

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

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

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

Workers' Compensation Benefits Reduction

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

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

Judges' Retirement System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	294	297
Active Non-vested	–	–
Vested Former Members	6	6
Retired Members	351	348
Active Members		
Number	294	297
Average Age	57.7	57.3
Average Years of Service	9.6	9.4
Average Annual Salary	$ 135,921	135,577
Retirees & Beneficiaries		
Number	351	348
Average Age	75.9	76.1
Average Monthly Benefit	$ 5,667	5,639

The Judges' Retirement System (JRS) was established on June 30, 1969 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership is a condition of employment for all District Court, Circuit Court, Court of Appeals and Court of Special Appeals judges. Full-time masters in chancery and masters in juvenile causes appointed prior to June 30, 1989 and Workers' Compensation Commission judges are also members of the JRS.

Member Contributions

All members contribute 6% of annual earnable compensation during the first 16 years of service. After accruing 16 years of credit, no member contributions are required.

Service Retirement Allowances

Eligibility — JRS members are eligible for full service retirement allowances upon attaining age 60 or upon retirement by order of the Court of Appeals, with at least 16 years of eligibility service. All JRS members must retire at age 70.

Allowances — Full service retirement allowances equal 2/3 (66.7%) of the current salary for an active judge holding a comparable position. If members retire with less than 16 years of eligibility service, the annual retirement allowance is prorated accordingly.

Early Retirement Allowances

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

Disability Retirement Allowances

Eligibility — JRS members are eligible for disability retirement allowances upon receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — The disability retirement allowances for JRS members generally equal the full service retirement allowance based on the members' actual length of service. However, for members completing at least three years of eligibility service, the disability benefit will be no less than 1/3 (33.3%) of the members' annual earnable compensation at the time of retirement.

Death Benefits

Eligibility — All JRS members, and former members, are eligible for death benefits regardless of age or length of service.

Benefits — The benefit provided upon death for JRS members, former members or retirees equals 50% of a service retirement allowance payable to the surviving spouse.

Special provisions apply in circumstances where deceased JRS members, former members or retirees have no surviving spouses, but are survived by a minor child (under age 18). In the event that deceased JRS members or former members are not survived by spouses or minor children, then all accumulated contributions are refunded to the estate.

Vested Retirement Allowances

Eligibility — JRS members are immediately vested. Members leaving the bench before attaining age 60 are eligible to receive their service retirement allowances commencing upon attaining age 60.

Allowances — Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and the **salary** of active judges holding comparable positions.

JRS members may elect to withdraw their accumulated contributions within six months of separation in lieu of receiving vested retirement allowances.

Optional Forms of Payment

Generally, JRS retirement allowances are paid as a 50% joint and survivor annuity to the retirees' surviving spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, retirees may select any one of the following six payment options.

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

State Police Retirement System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	991	968
Active Non-vested	363	440
Vested Former Members	77	68
Retired Members	2,282	2,226
Active Members		
Number	1,354	1,408
Average Age	35.4	35.1
Average Years of Service	11.0	10.7
Average Annual Salary	$ 60,344	$ 60,785
Retirees & Beneficiaries		
Number	2,282	2,226
Average Age	60.0	59.4
Average Monthly Benefit	$ 3,517	$ 3,524

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

Member Contributions

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

Service Retirement Allowances

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

Allowances — Full service retirement allowances equal 2.55% of AFC up to a maximum 71.4% of AFC (28 years). Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

Early Retirement Allowances

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

Ordinary Disability Retirement Allowances

Eligibility — SPRS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability retirement allowances generally equal 2.55% of the AFC multiplied by the number of years of creditable service up to a maximum of 28 years. The minimum ordinary disability retirement allowance is 35% of AFC.

Special Disability Retirement Allowances

Eligibility — SPRS members are eligible for special disability benefits if the Medical Board certifies that they became totally and permanently incapacitated for duty arising out of or in the actual performance of duty.

Allowances — Special disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Ordinary Death Benefits

Eligibility — To be eligible for ordinary death benefits, SPRS members must have accumulated at least one but less than two years of eligibility service prior to the date of death.

Benefits — The ordinary death benefit equals the members' annual earnable compensation at time of death plus accumulated contributions.

Special Death Benefits

Members in Service

Eligibility — To be eligible for special death benefits, SPRS members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty.

Benefits — The special benefit provided upon the death of SPRS members in service equals 50% of the members' annual earnable compensation at time of death paid as an annuity plus return of accumulated contributions. In cases where the deceased members are not survived by a spouse, the decedents' children or dependent parents, if any, will continue to receive an annuity equal to 50% of the members' annual earnable compensation until the youngest child reaches age 18, or for the life of each dependent parent. The special death benefit for troopers killed in the line of duty is 2/3 (66.7%) of AFC.

Survivor Benefit

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

Benefits — The survivor benefit provided upon the death of an SPRS retiree equals 80% of the retirees' retirement allowance, paid as an annuity. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive 80% of the retirees' allowance until the youngest child reaches age 18.

Vested Retirement Allowances

Eligibility — SPRS members are eligible for vested retirement allowances after separation from service and upon reaching age 50, provided that at least five years of eligibility service was accumulated prior to separation.

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

SPRS members may elect to withdraw their accumulated contributions within two years of separation in lieu of receiving vested retirement allowances. If members do not withdraw their contributions, and die before attaining age 50, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year.

Optional Forms of Payment

Generally, SPRS retirement allowances are paid as an 80% joint and survivor annuity to the retirees' spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, the retirees may select any one of the following six payment options.

Option 1: Payment guarantees a cash reserve equal to the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

Workers' Compensation Benefits Reduction

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

Deferred Retirement Option Program

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

Law Enforcement Officers' Pension System

A COMPOSITE PICTURE

	2010	2009
Total Membership		
Active Vested	1,774	1,760
Active Non-vested	700	685
Vested Former Members	198	189
Retired Members	1,182	1,067
Active Members		
Number	2,474	2,445
Average Age	40.1	40.2
Average Years of Service	10.9	10.8
Average Annual Salary	$ 56,669	$ 57,289
Retirees & Beneficiaries		
Number	1,182	1,067
Average Age	57.0	56.8
Average Monthly Benefit	$ 2,541	$ 2,551

THE LAW ENFORCEMENT OFFICERS PENSION SYSTEM (LEOPS) was established on July 2, 1990 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the LEOPS is a condition of employment for all uniformed law enforcement officers of the Maryland State Department of Natural Resources; the Maryland Investigative Services Unit; the Maryland Transportation Authority Police Force; the Baltimore City Sheriff's Department; the State Fire Marshall's Office; the University System of Maryland Police Force; Morgan University Police Force; the BWI Airport Fire and Rescue Department; the Department of General Services Police Force; the Department of Health and Mental Hygiene; the Motor Vehicle Administration; and the Department of Labor, Licensing, and Regulation; the State Department of Elections; Field Enforcement Bureau; Firefighters for Martin's Airport Aviators employed by the Department of State Police. In addition, membership includes law enforcement officers, firefighters, and paramedics employed by a governmental unit that elects to participate in LEOPS.

The LEOPS consists of two separate components — a retirement plan (closed to new members January 1, 2005) and a pension plan. Retirement plan provisions are applicable to those officers who, on the date they elected to participate in the LEOPS, were members of ERS (closed as of January 1, 2005). Pension plan provisions are applicable to all other LEOPS members.

Member Contributions

All member contributions to the LEOPS are based on the members' annual earnable compensation. Members subject to retirement plan provisions that elected to receive unlimited future COLAs contribute 7%. This option is referred to as Selection A (Unlimited COLA).

Members subject to retirement plan provisions that elected to receive limited future COLAs contribute 5%. This option is referred to as Selection B (Limited COLA).

Members subject to pension plan provisions contribute 4% of annual earnable compensation during employment.

Service Retirement Allowances

Eligibility — LEOPS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service regardless of age.

Allowances — For members subject to the retirement plan provisions, full service retirement allowances equal 2.3% of AFC for the first 30 years of creditable service, plus 1.0% of AFC for each additional year.

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

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

Early Retirement Allowances

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

Ordinary Disability Retirement Allowances

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

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

Ordinary disability retirement allowances for LEOPS members subject to pension plan provisions equal the full service pension allowance if the member is at least age 50 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 50 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

Eligibility — LEOPS members are eligible for accidental disability benefits if the Medical Board certifies that they became totally and permanently incapacitated for duty arising out of or in the actual performance of duty.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Ordinary Death Benefits

Eligibility — To be eligible for ordinary death benefits, LEOPS members must have accumulated at least one but less than two years of eligibility service prior to the date of death.

Benefits — The ordinary death benefit equals the members' annual earnable compensation at the time of death plus accumulated contributions.

Special Death Benefits

Members in Service

Eligibility — To be eligible for special death benefits, LEOPS members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty.

Benefits — The special death benefit provided upon death for LEOPS members in service equals 50% of the applicable ordinary disability allowance. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive the special death benefit until the youngest child reaches age 18. The special death benefit for officers killed in the line of duty is 2/3 (66.7%) of AFC.

Survivor Benefits

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

Benefits — The survivor benefit provided upon death for LEOPS retiree equals 50% of the retiree' retirement allowance, paid as an annuity. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive 50% of the retiree' allowance until the youngest child reaches age 18.

Vested Pension Allowances

Eligibility — LEOPS members are eligible for vested pension allowances after separation from service and upon attaining age 50, provided that they accumulated at least five years of eligibility service prior to separation.

Allowances — Vested allowances equal the normal service retirement or pension allowances computed on the basis of the members' accumulated creditable service and AFC at the date of separation.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year. For LEOPS members subject to retirement plan provisions, annual COLAs are determined under the various methods applicable to ERS members. Each method is explained below:

Selection A (Unlimited COLA) — LEOPS members who elected Selection A (while enrolled in the ERS), agreed to contribute 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) — LEOPS members who elected Selection B (while enrolled in the ERS), agreed to contribute no more than 5% of earnable compensation in return for COLAs which are limited to 5% annually after retirement.

For all other LEOPS members, annual COLA's are limited to 3% of the annual allowance.

Optional Forms of Payment

Generally, LEOPS retirement allowances are paid as a 50% joint and survivor annuity to the retiree' spouse, or if there is no spouse, to any child under age 18. If the retiree have neither a living spouse nor children under 18 at retirement, the retiree may select any one of the following six payment options.

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

Workers' Compensation Benefits Reduction

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

Deferred Retirement Option Program

LEOPS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the LEOPS member must have at least 25 years of creditable service, but less than 30 years. The maximum period of participation is 5 years. During the DROP period, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 6% interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the LEOPS retiree. The LEOPS member must end employment and fully retire at the end of the DROP period.

SRPS