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, 2012

2012

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, 2012

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, 2012

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, 2012. This report provides information on the financial status of the retirement system and highlights important events that occurred during a period when the system issued monthly, on average, about $230 million in payments to more than 132,000 retirees and beneficiaries.

Fiscal Year 2012 was remarkable for its volatility in the global financial markets, posing a challenging environment for investors, especially in international equity markets. As a result, the system's portfolio returned 0.36 % on investments for the fiscal year, below the system's 7.75% actuarial return target. However, investment returns exceeded the plan policy benchmark performance by 0.28 %. The plan policy benchmark is a point of reference that compares the system's total investment performance against the weighted average of the overall market performance of each of the system's underlying asset classes.

Most of the system's asset classes added value to the fund, offsetting the negative impact of public equity for the year — offering further proof that a diversified portfolio is critical to maintaining positive results. The board continues to focus on the fund's long-term performance. Over the last 25 years, the system has earned an average return of 7.85% -- a more appropriate overall measure of performance.

The board's fundamental purpose is to ensure that retirement benefits are paid in an accurate and timely manner. The board oversees the investment of the Maryland State Retirement and Pension System assets in order to help ensure the funding necessary to meet those obligations.

Your retirement system remains administratively and financially sound. As a participant in the system, you can remain confident that your pension benefits are secure. As always, your commitment to and involvement in the concerns of the system are greatly appreciated and we value your input. If you have any question, please do not hesitate to contact us.

Sincerely,

Nancy K. Kopp

NANCY K. KOPP
Chairman

Peter Franchot

PETER FRANCHOT
Vice Chairman

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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LETTER OF TRANSMITTAL

December 15, 2012

Honorable Chairman and 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, 2012. 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 132,000 retirees and beneficiaries, and is an essential element of the future financial security for over 192,000 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 107.

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. 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 .36 percent in fiscal year 2012. The fund did not meet its 7.75% actuarial return target for this year, but did exceed the plan policy benchmark of .28 percent by 8 basis points.

The plan policy benchmark is a point of reference that compares the system's total investment performance against the weighted average of the benchmark performance of each of the system's underlying asset classes. Most of the System's asset classes produced positive returns for the year, offsetting the negative impact of the public equity asset class, driven by the challenging environment for investors during the fiscal year, particularly in the international equity.

After the payment of benefits, the market value of assets decreased by approximately $ 414 million from $37.5 billion on June 30, 2011 to $37.1 billion on June 30, 2012

The System's target asset allocation is comprised of 36% public equities, 10% fixed income, 10% private equities, 10% credit/debt strategies, 10% real estate, 15% 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 across asset classes.

Major Issues

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

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

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

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

Financial Information and Management Responsibility

Ultimate responsibility for the basic financial statements and annual report rests with the management of the Maryland State Retirement and Pension System with the Board providing oversight and acceptance. The financial statements have been prepared by management, which is responsible for the integrity and fairness of the data presented.

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.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding of controls. Accordingly, even an effective internal control system may not prevent or detect misstatement and can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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 yearend. 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 2012, investment earnings were $104.0 million, while revenues from employer and member contributions were $1.59 billion and $703.2 million, respectively. For fiscal year 2012, member contribution rates on average were 7%, while employer rates varied depending on the system.

Expenses

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of System operations. Payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during FY 2011 totaling $2.7 billion. In addition, the System disbursed $275.4 million to manage the investment portfolio and to administer the System, of which $247.2 million was paid for investment management, portfolio custody, and securities lending services and $28.2 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. The System's funded ratio decreased from 64.7% at June 30, 2011 to 64.4% at June 30, 2012.

At June 30, 2012, the System's actuarial accrued liability was $57.8 billion and the unfunded actuarial accrued liability totaled $20.6 billion, resulting in a funded status ratio of 64.4%. The portion of the unfunded actuarial accrued liability that existed at June 30, 2000 will continue to be amortized over the remaining 8-year period to June 30, 2020, whereas each subsequent annual liability layer will be amortized over a 25-year period.

Professional Services

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board of Trustees in carrying out its fiduciary responsibility to efficiently and effectively manage the System. Actuarial services were provided by Gabriel Roeder Smith & Company and independent financial statement audit services were provided by SB & Company, LLC. The System's asset custody and portfolio accounting services were provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. Hewitt Ennis Knupp, Inc. serves as the System's general investment consultant. Specialty consulting services are provided by Altius Associates Limited and Pension Consulting Alliance, Inc. for private equity and real estate, respectively. Albourne America LLC advises staff on the retirement system's Absolute Return portfolio and Wilshire Associates provides risk consulting services. 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, 2011. This was the twenty-third consecutive year (1989 through 2011) that it has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Additionally, the Maryland State Retirement and Pension System received the Public Pension Coordinating Council's (PPCC) 2011 Recognition Award for Administration, in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

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

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

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

Acknowledgments

This annual report reflects the dedicated efforts of the System's staff under the steady direction of the Board of Trustees. We extend our sincere gratitude to each member of the Board, the System's staff, the Board's advisors and the many people who worked with diligence and dedication throughout fiscal year 2012.

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

BOARD OF TRUSTEES

BOARD OF TRUSTEES

F. PATRICK HUGHES
April 20, 2004 – June 30, 2013
Chairman, Audit Committee
Vice Chairman, Investment Committee
Member, Securities Litigation Committee

MAJOR MORRIS L. KROME
August 1, 1998 – July 31, 2014
Vice Chairman, Administrative Committee
Member, Audit Committee
Member, Investment Committee

THERESA LOCHTE
August 1, 2007 – July 31, 2015
Member, Investment Committee
Member, Audit Committee

ROBERT R. HAGANS, JR.
Novemer 15, 2011 – July 31, 2015
Member, Investment Committee
Member, Audit Committee

HAROLD ZIRKIN
September 10, 2007 - June 30, 2015
Chairman, Investment Committee
Member, Corporate Goverance Committee
Vice Chariman, Securities Litigation Committee

THURMAN ZOLLICOFFER, JR.
September 12, 2007 - July 31, 2015
Member, Investment Committee
Vice Chairman, Corporate Governance Committee
Chariman, Securities Litigation Committee

ADVISORS TO THE INVESTMENT COMMITTEE

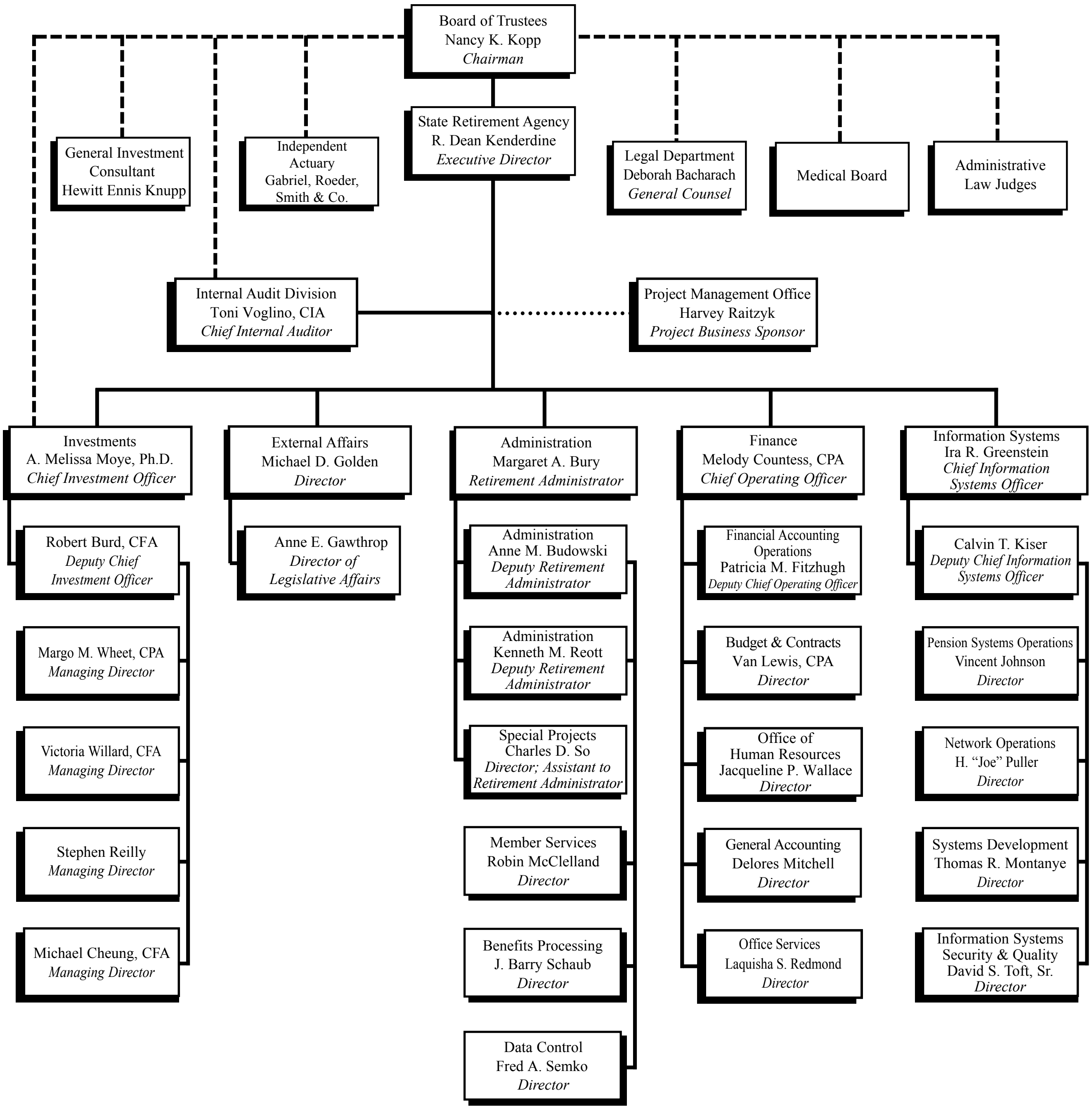
LARRY E. JENNINGS, JR.

WAYNE H. SHANER

BRIAN B. TOPPING

ORGANIZATIONAL CHART

(November, 2012)



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

PROFESSIONAL SERVICES

Asset & Income Verification Services

Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

Global Custodial Bank & Security Lending

State Street Bank and Trust Company
Boston, Massachusetts

Hearing Officers

Office of Administrative Hearings
Baltimore, Maryland

Independent Actuary

Gabriel Roeder Smith & Company
Southfield, Michigan

Independent Auditor

SB & Company, LLC
Hunt Valley, Maryland

Independent Investment Consultants

Altius Associates Limited
Richmond, Virginia

Hewitt EnnisKnupp, Inc.
Chicago, Illinois

Pension Consulting Alliance
Encino, California

Albourne America, LLC
San Francisco, California

Medical Board

Dr. Elizabeth Adegboyega-Panox
Dr. Eroll L. Bennett
Dr. Robin A. Conwit
Dr. Robert Cumming
Dr. Vinu Ganti
Dr. Arthur Hildreth
Dr. Bruce Kohrn
Dr. Christian E. Jensen
Dr. John Parkerson
Dr. William B. Russell
Dr. Zia Zakai

Operational Banking Services

M & T Bank
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maryland State Retirement and Pension System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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 2012

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

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Financial Section

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Maryland State Retirement and Pension System

We have audited the accompanying basic financial statements of the Maryland State Retirement and Pension System (the System), which is a trust fund of the State of Maryland, as of June 30, 2012 and 2011, and for the years then ended, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Maryland State Retirement and Pension System in conformity with accounting principles generally accepted in the United States of America (GAAP).

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory, investment, statistical, actuarial, and plan summary sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SB & Company, LLC

Hunt Valley Maryland
November 20, 2012

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, 2012, 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 are comprised of 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 as of 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 the System's resources.

Finally, the note disclosures are provided as an integral component of the basic 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, various 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 disclose a ten-year history of required employer contributions (i.e., Schedule of Required Contributions from Employers and Other Contributing Entity). The importance of these schedules is best explained by reference to the previously discussed basic financial statements.

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

The Schedule of Required Contributions from Employers and Other Contributing Entity, much like the Schedule of Funding Progress, shares common characteristics with data disclosed in the basic financial statements. In this regard, both the Statements of Changes in Plan Net Assets and the Schedule of Required Contributions from Employers and Other Contributing Entity disclose the amount of contributions received from participating employers. However, the Schedule of Contributions from Employers and Other Contributing Entity differs from the Statements of Changes in Plan Net Assets in that the schedule's primary focus is to disclose the contributions required to be made in accordance with the System's funding policy and the percentage of the required contributions actually made during the fiscal years presented.

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

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

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

Fiscal Year 2012 compared to 2011

The following condensed comparative Statement of Net Assets for the fiscal years ended June 30, 2012 and 2011, presents a decrease in the System's net assets of $414.0 million (1.1%). This decrease is due to the existence of a challenging environment for investors, particularly in international equity; however, most of the System's other asset classes added value to the fund offsetting the negative impact of public equity for the year. Additional information on our fiscal year 2012 investment activities can be found in the Investment Section of this report.

A schedule of the System's investments and changes (by type) from fiscal year 2011 to 2012 is as follows (expressed in millions):

	June 30,		Change	
	2012	**2011**	**Amount**	**%**
Cash & cash equivalents	$ 2,171.0	$ 2,002.7	$ 168.3	8.4%
U.S. Government obligations	3,231.4	3,298.8	(67.4)	-2.0%
Domestic corporate obligations	2,808.3	3,133.1	(324.8)	-10.4%
International obligations	1,306.5	1,078.0	228.5	21.2%
Domestic stocks	7,988.3	8,409.0	(420.7)	-5.0%
International stocks	8,147.7	9,226.1	(1,078.4)	-11.7%
Mortgages & mortgage related securities	2,491.8	2,582.9	(91.1)	-3.5%
Real estate	5.0	166.4	(161.4)	-97.0%
Alternative investments	9,614.4	8,379.9	1,234.5	14.7%
Total managed investments	37,764.4	38,276.9	(512.5)	-1.3%
Collateral for loaned securities	3,452.1	4,245.0	(792.9)	-18.7%
Total investments and cash & cash equivalents	41,216.6	42,521.9	(1,305.4)	-3.1%
Receivables	1,040.6	887.7	152.9	17.2%
Total Assests	42,257.1	43,409.6	(1,152.5)	-2.7%
Liabilities	5,078.4	5,816.9	(738.5)	-12.7%
Total Net Assets, End of Year	$37,178.7	$37,592.7	$ (414.0)	-1.1%

As depicted in the following comparative Statement of Changes in Net Assets for fiscal years 2012 and 2011, contributions to the plan during fiscal year 2012 increased as a result of the impact of the implementation and increase to member contributions related to pension reform legislation passed during the 2011 Maryland Legislative session. The System's investments experienced a positive weighted average investment return of .036%, recognizing $104.1 million in net investment income.

The System continues to pay out more benefits than contributions collected. An increase of $174.7 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries during fiscal year 2012 and offset the net returns experienced resulting in a overall reduction of $414 million in total net assets.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2011 to 2012, is as follows (expressed in millions):

	June 30,		Change	
	2012	**2011**	**Amount**	**%**
Employer contributions	$ 697.5	$ 612.3	$ 85.2	13.9%
Member contributions	703.3	528.0	1875.3	33.2%
Other & contribution interest	898.2	900.2	(2.0)	-0.2%
Net investment income (loss)	104.1	6,273.3	(6,169.2)	-98.3%
Total additions	2,403.1	8,313.8	(5,910.7)	-71.1%
Benefit payments	2,755.1	2,580.4	174.7	6.8%
Refunds	33.8	33.4	0.4	1.2%
Administrative expenses	28.2	30.9	(2.7)	-8.7%
Total deductions	2,8171.1	2,644.7	172.4	6.5%
Net increase (decrease) in plan net assets	$ (414.0)	$ 5,669.1	$ (6,083.1)	-107.3%

Fiscal Year 2011 compared to 2010

The System's net assets increased by $5.7 billion (17.8%) from fiscal year 2010 to the end of fiscal year 2011. This increase in net assets was primarily attributable to strong performance in stocks, real estate and alternative investments. Positive performance, on a more modest scale, was experienced in fixed income and cash & cash equivalents.

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

	June 30,		Change	
	2011	**2010**	**Amount**	**%**
Cash & cash equivalents	$ 2,002.7	$ 1,630.3	$ 372.4	22.8%
U.S. Government obligations	3,298.8	3,183.2	115.6	3.6%
Domestic corporate obligations	3,133.1	3,159.6	(26.5)	-0.8%
International obligations	1,078.0	919.6	158.4	17.2%
Domestic stocks	8,409.0	7,760.2	648.8	8.4%
International stocks	9,226.1	8,234.9	991.2	12.0%
Mortgages & mortgage related securities	2,582.9	1,670.3	912.7	54.6%
Real estate	166.4	396.1	(229.7)	-58.0%
Alternative investments	8,379.9	5,047.1	3,332.8	66.0%
Total managed investments	38,276.9	32,001.3	6,275.6	19.6%
Collateral for loaned securities	4,245.0	4,630.2	(385.2)	-8.3%
Total investments and cash & cash equivalents	42,521.9	36,631.5	5,890.4	16.1%
Receivables	887.7	1,052.4	(164.7)	-15.6%
Total Assets	43,409.6	37,683.9	5,725.7	15.2%
Liabilities	5,816.9	5,760.3	56.6	1.0%
Total Net Assets, End of Year	$37,592.7	$31,923.6	$5,669.1	17.8%

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

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

	June 30,		**Change**	
	2011	**2010**	**Amount**	**%**
Employer contributions	$ 612.3	$ 504.7	$ 107.6	21.3%
Member contributions	528.0	535.5	(7.5)	-1.4%
Other & contribution interest	900.2	804.2	96.0	11.9%
Net investment income	6,273.3	4,016.4	2,256.9	56.2%
Total additions	8,313.8	5,860.8	2,453.0	41.9%
Benefit payments	2,580.4	2,445.5	134.9	5.5%
Refunds	33.4	33.5	(0.1)	-0.3%
Administrative expenses	30.9	28.6	2.3	8.0%
Total deductions	2,644.7	2,507.6	137.1	5.5%
Net increase (decrease) in plan net assets	$5,669.1	$3,353.2	$2,315.9	69.1%

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. Changes to the actuarial demographic assumptions identified as part of a recent actuarial experience study resulted in an increase in actuarial accrued liabilities. As a result, the System's funded status as of June 30, 2012 decreased from 64.7% as of June 30, 2011 to 64.4% at June 30, 2012.

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

REQUESTS FOR INFORMATION

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

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF PLAN NET ASSETS
As of June 30, 2012 and 2011
(Expressed in Thousands)

	2012	2011
Assets:		
Cash & Cash Equivalents	$ 2,171,007	$ 2,002,722
Receivables:		
Contributions		
Employers	21,894	18,569
Employers – long term	41,828	45,311
Members	12,773	9,293
Accrued investment income	152,166	96,825
Investment sales proceeds	811,898	717,709
Total receivables	1,040,559	887,707
Investments, at fair value		
U.S. Government obligations	3,231,434	3,298,771
Domestic corporate obligations	2,808,267	3,133,131
International obligations	1,306,528	1,078,016
Domestic stocks	7,988,328	8,409,004
International stocks	8,147,718	9,226,097
Mortgages & mortgage related securities	2,491,766	2,582,992
Real estate	5,009	166,376
Alternative investments	9,614,379	8,379,900
Collateral for loaned securities	3,452,109	4,244,956
Total investments	39,045,538	40,519,243
Total Assets	42,257,104	43,409,672
Liabilities:		
Accounts payable and accrued expenses	55,055	60,012
Investment commitments payable	1,568,720	1,509,634
Obligation for collateral for loaned securities	3,452,109	4,244,956
Other liabilities	2,494	2,318
Total Liabilities	5,078,378	5,816,920
Net Assets Held in Trust for Pension Benefits	$37,178,726	$37,592,752

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, 2012 and 2011

(Expressed in Thousands)

	2012	2011
Additions:		
Contributions		
Employers	$697,547	$612,277
Members	703,256	528,028
Other	895,691	897,438
Contribution interest	2,523	2,757
Total contributions	2,299,017	2,040,500
Investment Income		
Net (depreciation) in fair value of investments	(1,098,048)	5,359,906
Interest	378,496	347,537
Dividends	1,041,358	748,794
Real estate operating net income	5,274	22,478
Income before securities lending activity	327,080	6,478,715
Gross income from securities lending activity	24,208	24,249
Securities lending borrower rebates	(2,230)	(5,374)
Securities lending agent fees	(3,486)	(3,010)
Net income from securities lending activity	18,492	15,865
Total investment income	345,572	6,494,580
Investment expenses	(241,489)	(221,243)
Net investment income	104,083	6,273,337
Total Additions	2,403,100	8,313,837
Deductions:		
Benefit payments	2,755,106	2,580,392
Refunds	33,819	33,369
Administrative expenses	28,201	30,961
Total deductions	2,817,126	2,644,722
Net (decrease) increase in plan assets	(414,026)	5,669,115
Net Assets Held in Trust for Pension Benefits		
Beginning of the fiscal year	37,592,752	31,923,637
End of the fiscal year	$37,178,726	$37,592,752

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 Maryland State Retirement and Pension System (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") shares in the liabilities of the Municipal Pool only.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

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

B. Covered Members

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

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System. Currently, more than 150 governmental units participate in the Employees' Retirement System.

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 (LEOPS) 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 LEOPS, 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, 2012, with comparative 2011 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	23,033	63,699	82,818	20,876	103,694
Employees' Retirement & Pension Systems*	27,875	64,646	64,357	20,907	85,264
Judges' Retirement System	10	365	294	-	294
State Police Retirement System	85	2,387	991	341	1,332
Law Enforcement Officers' Pension System	227	1,396	1,849	561	2,410
Total as of June 30, 2012	51,230	132,493	150,309	42,685	192,994
Total as of June 30, 2011	50,911	127,171	147,371	47,688	195,059

* 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. For all individuals who are members of the Employees', Teachers', Correctional Officers' or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' average final compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the State Police Retirement System or the Correctional Officers' Retirement System on or after July 1, 2011, retirement allowances are computed using both the highest five years' AFC and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five 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.

Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System and Employees' Pension System from 5% to 7%, and from 4% to 6% respectively, in fiscal year 2012 and 7% in fiscal year 2013 and beyond for members of the Law Enforcement Officers' Pension System. Beginning July 1, 2012, the member contribution rate was increased for members of the Judges' Retirement System from 6% to 8%.

In addition, the benefit attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.75%).

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2012, are as 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 creditable 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.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, 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. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance 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. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employees' Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members 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.

An individual who is a member of the State Police Retirement System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22 years of eligibility service regardless of age. An individual who becomes a member of the State Police Retirement System on or after July 1, 2011 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 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 individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. An individual who is a member of the Judges' Retirement System on or before June 30, 2012, has no minimum service requirements prior to vesting. However, individuals who join the Judges' Retirement System on or after July 1, 2012 and terminate employment before attaining retirement age will have to accrue five years of eligibility service in order to receive a vested retirement allowance. 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 vesting, 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 creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, 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 these members of the Teachers' or Employees' Pension System is 42%. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 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 65. The maximum reduction for these members of the Teachers' or Employees' Pension System is 30%.

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 CPI.

For State Police and Correctional Officers' Retirement System retirees, prior to July 1, 2011, unlimited compounded COLAs are effective July 1 and are applied to all benefits which have been in payment for one year. With certain exceptions, effective July 1, 1998, for Teachers', Employees', and Law Enforcement Officers' Pension System retirees, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year. The 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.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011 in all of the systems except the judges' and legislators' systems, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate (currently 7.75% as approved by the Board of Trustees). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of 7.75%. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

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 principles, generally accepted in the United States of America. 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 accompanying 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 accompanying Statements of Changes in Plan Net Assets represent the income or loss derived from such investments for the year then ended. Accordingly, significant market fluctuations could periodically occur subsequent to the financial statement valuation date, which are not reflected in either the fair value of investments or the related investment income presented in these financial statements..

D. Derivatives

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

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

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

E. Administrative and Investment Expenses

All of the System's administrative and investment expenses (e.g., salaries of Agency employees, investment advisory fees) are incurred centrally and charged to each individual retirement or pension system on the basis of its percentage ownership in the System's net assets. All of the System's administrative and investment expenses are funded from investment income. See pages 43 and 44 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2012 and 2011, the System qualified under Section 401(a) of the Internal Revenue Code (the Code) and was exempt from Federal income taxes under Section 501(a) of the Code.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Legal Provisions

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

Type	Description	As of June 30, 2012 Strategic Target	Actual
Public Equity	Common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and Non-U.S. companies, wherever organized shares in investment funds and trusts may be purchased.	36.0%	42.4%
Fixed Income	Fixed income obligations of the U.S. government and its states and local subdivisions, U.S. and non-U.S. companies, wherever organized, and supra-national organizations. Any limits are governed by the System's contract with each manager.	10.0%	19.2%
Debt Related Strategies	Distressed debt, credit funds, mezzanine debt funds, public private funds, and flexible credit.	10.0%	7.8%
Alternate Investment:			
Absolute Return	An array of hedge fund strategies, including distressed debt, arbitrage managers, long/short market neutral managers as well as macro and multi strategy managers.	7.0%	6.8%
Private Equity	Limited partnerships	10.0%	5.7%
Real Estate	Domestic and global real estate investment trusts (REITS); directly owned real estate; and private real estate funds.	10.0%	6.4%
Real Return	Treasury inflation protected securities, global inflation-linked securities, commodities, energy related, infrastructure, natural resources and multi-asset class portfolios with a real return mandate.	15.0%	10.0%
Cash Portfolio	Money market funds, U.S. treasury bills, currency and other short term investments.	2.0%	1.7%

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 System's deposits may not be returned to it.

The System does not have any funds or deposits that are not covered by depository insurance, that are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the System's name and there are no legal or contractual provisions for deposits and investments. Nor does the System have any investments that are not registered in its name and are either held by the counterparty or the counterparty's trust department or agent, but not in the System's name.

The amount of the System's total cash and cash equivalents as of June 30, 2012 and June 30, 2011 was $2,171,007 and $2,002,722 (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 which states: A fiduciary shall discharge the fiduciary's duties with respect to the several systems solely in the interest of the participants and as follows: (1) for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administering the several systems; (2) 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; (3) by diversifying the investments of the several systems so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so: (4) in accordance with the laws governing the several systems; and (5) in accordance with the documents and instruments governing the several systems to the extent that the documents and instruments are consistent with this subtitle.

D. Interest Rate Risk

As of June 30, 2012, the System had the following fixed income investments allocated by year of maturity with the exception of the Commingled Funds, which are based on their average maturity:

Investment Type:	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 thru 5	5+ thru 10	More than 10
Asset backed securities	$ 264,011	$ 389	$ 98,428	$ 39,682	$ 125,512
CMBS	7,620	–	–	–	7,620
Collateralized mortgage obligations	453,650	–	5,899	31,573	416,178
Credit/Debt funds	1,566,628	9,218	1,147,193	410,217	–
Convertible bonds	52,209	2,228	32,926	6,844	10,211
Domestic corporate obligations	1,927,927	78,772	636,105	875,094	337,956
International obligations	1,286,678	33,432	259,762	523,858	469,626
Mortgage pass-throughs	2,065,960	2,281	6,732	58,152	1,998,795
Municipals	142,561	3,157	7,882	18,159	113,363
Options	(3,318)	(3,289)	3	(32)	–
Private placement	7	–	–	–	7
Short term	1,990,135	1,990,135	–	–	–
Swaps	(591)	(578)	1,589	(1,948)	346
U.S. government agency	197,027	18,832	123,394	42,360	12,441
U.S. treasury bonds	940,205	–	5,316	16,415	918,474
U.S. treasury notes	2,081,128	81,115	1,162,337	837,676	–
U.S. treasury strips	27,322	–	–	–	27,322
Yankee bonds	406,482	35,545	186,268	133,870	50,799
Totals	$13,405,641	$ 2,251,237	$ 3,673,834	$ 2,991,920	$ 4,488,650

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, 2012.

At June 30, 2012, the System had $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, 2012 are identified in greater detail in Note 4.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2012 and 2011 is shown below:

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

Rating	2012 Fair Value	Percentage Total Investments	2011 Fair Value	Percentage Total Investments
AAA	$ 1,151,307	3.097%	$ 2,980,910	7.929%
AA	2,468,966	6.641%	537,473	1.430%
A	2,579,483	6.938%	2,765,807	7.357%
BAA	333,884	0.898%	147,660	0.393%
BA	9,752	0.026%	13,731	0.037%
BBB	851,977	2.292%	870,992	2.317%
BB	170,567	0.459%	237,279	0.631%
B	209,347	0.563%	166,868	0.444%
CAA	42,490	0.114%	41,596	0.111%
CA	570	0.002%	0	0.000%
CCC	97,359	0.262%	116,075	0.309%
CC	20,582	0.055%	2,875	0.008%
C	581	0.002%	2,061	0.005%
D	17,635	0.047%	15,353	0.041%
NR	524,139	1.410%	969,417	2.579%
	$ 8,478,639		$ 8,868,097	

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

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2012:

International Investment Securities – At Fair Value as of June 30, 2012
(U.S. Dollars in Thousands)

Currency	Equity	Fixed Income	Cash	Alternative Investments	Commingled Funds	Total
Argentine Peso	$ -	$ 215	$ -	$ -	$ -	$ 215
Australian Dollar	289,002	54,159	5,166	32,956	-	381,283
Brazilian Real	72,053	201	1,051	-	-	73,305
Canadian Dollar	369,539	23,927	8,643	57,787	-	459,896
Czech Koruna	5,910	-	1	-	-	5,911
Danish Krone	55,929	-	1,629	3,170	-	60,728
Egyptian Pound	1,279	-	-	-	-	1,279
Euro Currency	1,474,846	506,084	36,616	516,649	83,186	2,617,381
Hong Kong Dollar	458,230	1,030	8,349	-	-	467,609
Hungarian Forint	1,154	-	63	-	-	1,217
India Rupee	-	-	(534)	-	-	(534)
Indonesian Rupiah	11,110	-	324	-	-	11,434
Israeli Shekel	12,462	-	543	-	-	13,005
Japanese Yen	972,678	66,632	18,463	10,885	-	1,068,658
Malaysian Ringgit	8,806	321	286	-	-	9,413
Mexican Peso	16,336	40,913	1,178	335	-	58,762
Moroccan Dirham	188	-	-	-	-	188
New Russian Ruble	1,301	334	14	-	-	1,649
New Taiwan Dollar	24,941	-	-	-	-	24,941
New Turkish Lira	-	-	37	-	-	37
New Zealand Dollar	2,831	21,487	241	-	-	24,559
Nigerian Naira	995	-	12	-	-	1,007
Norwegian Krone	69,314	1,123	51	-	-	70,488
Pakistan Rupee	1,336	-	1,184	-	-	2,520
Philippine Peso	4,372	-	54	-	-	4,426
Polish Zloty	10,977	9,623	430	-	-	21,030
Pound Sterling	1,061,688	127,457	17,439	332,435	19,139	1,558,158
Singapore Dollar	107,309	408	2,518	-	-	110,235
South African Rand	29,854	8,815	631	189	-	39,489
South Korean Won	101,456	-	-	-	-	101,456
Sri Lanka Rupee	-	-	-	503	-	503
Swedish Krona	145,486	1,690	5,336	23,622	-	176,134
Swiss Franc	400,815	-	11,235	-	-	412,050
Thailand Baht	20,041	-	369	-	-	20,410
Turkish Lira	18,774	-	110	-	-	18,884
Yuan Renminbi	-	-	(2)	-	-	(2)
Multiple	-	-	-	395,652	1,823,766	2,219,418
Total Holdings Subject to Foreign Current Risk	$ 5,751,012	$ 864,419	$ 121,437	$ 1,374,183	$ 1,926,091	$10,037,142

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

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

G. Security Lending Transactions

The System accounts for securities lending transactions in accordance with GASB Statement No.28 *"Accounting and Financial Reporting for Securities Lending Transactions."*

The following table details the net income from securities lending for the periods ending June 30, 2012 and 2011 (in thousands):

	2012	2011
Interest income	$ 24,208	$ 24,249
Less:		
Interest expense	2,230	5,373
Program fees	3,486	3,010
Expenses from securities lending	5,716	8,384
Net income from securities lending	$ 18,492	$ 15,866

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, 2012, 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.

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, 2012, such investment pool had an average duration of 35 days and an average final maturity of 74 days for U.S. dollar collateral. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The system cannot pledge or sell collateral securities received unless and until a borrower defaults. At year-end, the System had no credit risk exposure to borrowers because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2012 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral:			
U.S. government and agency	$1,241,673,272	$1,273,218,602	102.5%
Domestic fixed income	307,711,307	314,211,558	102.1%
Domestic equity	1,375,604,034	1,370,520,214	99.6%
International fixed	63,281,645	65,368,767	103.3%
International equity	416,776,938	428,001,741	102.7%
Lent for noncash collateral:			
U.S. government and agency	47,082,487	48,053,596	102.1%
Domestic fixed income	-	125,296	0.0%
Domestic equity	9,756,612	9,991,238	102.4%
International fixed	7,259,314	7,686,980	105.9%
International equity	9,450,663	9,990,895	105.7%
Total Securities Lent	$3,478,596,272	$3,527,168,887	101.4%

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 the custodian bank for all lending clients participating in the lending program. Collateral value listed above includes all collateral for securities on loan.

4. DERIVATIVES

Each investment manager's guidelines determine the extent to which derivatives are permissible. Futures and other derivatives are permitted to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market, or to modify asset exposure in tactical portfolio shifts. Use of derivatives is not permitted to materially alter the characteristics, including the investment risk, of each investment 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 30,2012		
Currency	**Classifications**	**Amount(1)**	**Classification**	**Amount(2)**	**Notional(3)**
Commodity Futures Long	Investment Revenue	$ (35,759,792)	Futures	$ -	$ 92,357,006
Commodity Futures Short	Investment Revenue	5,003,043	Futures	-	-
Credit Default Swaps	Investment Revenue	-	Swaps	-	-
Credit Default Swaps Bought	Investment Revenue	689,687	Swaps	1,980,239	67,278,915
Credit Default Swaps Written	Investment Revenue	(1,918,903)	Swaps	(1,839,117)	195,486,400
Currency Swaps	Investment Revenue	(564,936)	Swaps	(1,077,784)	32,282,927
Fixed Income Futures Long	Investment Revenue	65,603,648	Futures	-	720,372,421
Fixed Income Futures Short	Investment Revenue	(73,896,115)	Futures	-	(702,992,614)
Fixed Income Options Bought	Investment Revenue	(97,131)	Options	1,073,883	38,045,000
Fixed Income Options Written	Investment Revenue	3,190,094	Options	(4,341,492)	(443,645,000)
Foreign Currency Options Bought	Investment Revenue	(80,112)	Options	-	-
Foreign Currency Options Written	Investment Revenue	527,558	Options	(29,888)	(9,320,000)
Futures Options Bought	Investment Revenue	(7,679,421)	Options	627,857	7,037,000
Futures Options Written	Investment Revenue	17,009,267	Options	(648,666)	(2,311,500)
FX Forwards	Investment Revenue	131,012,984	Long Term Instruments	35,673,621	-
Index Futures Long	Investment Revenue	(10,422,888)	Futures	-	1,575,480
Index Futures Short	Investment Revenue	-	Futures	-	-
Index Options Bought	Investment Revenue	10,825	Options	-	-
Index Options Written	Investment Revenue	126,035	Options	-	-
Pay Fixed Interest Rate Swaps	Investment Revenue	(14,581,445)	Swaps	(2,462,257)	211,763,404
Receive Fixed Interest Rate Swaps	Investment Revenue	5,376,853	Swaps	2,808,106	113,033,751
Rights	Investment Revenue	794,682	Common Stock	186,385	1,377,130
Total Return Swaps Bond	Investment Revenue	(1,254,510)	Swaps	-	-
Warrants	Investment Revenue	(1,527,314)	Common Stock	6,216,561	660,630
		$ 81,562,109		**$ 38,167,448**	

Note: Includes assets invested on behalf of the Maryland Transit Administration.
1. Negative values (in brackets) refer to unrealized losses
2. Negative values (in brackets) refer to liabilities
3. Notional may be a dollar amount or size of underlying for futures and options, negative values (in brackets) refer to short positions
4. Changes in fair value 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 counterparty. At the present time, the Agency does not have a formal policy relating to counterparty collateral or netting arrangements.

The aggregate fair value of derivative instruments in asset positions at June 30, 2012, was $ 404,793,145. 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.

The following table lists the market value of credit exposure per ratings of the Standard & Poors (S&P), Moody's and Fitch.

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
$ 230,538,542	AA-	$61,029,212	Aaa	$ 103,485,832	AA
120,010,224	A+	42,733,264	Aa2	176,940,441	AA-
47,423,913	A	91,162,054	Aa3	35,595,987	A+
6,820,466	A-	88,607,710	A1	88,770,885	A
		109,369,188	A2		
		5,678,068	A3		
		6,213,649	Baa1		
$404,793,145	(1)	$404,793,145	(1)	$404,793,145	(1)

(1) Total aggregate market value

Risk Concentrations

The following tables list the counter party risk concentration and credit ratings per ratings of Standard & Poor's (S&P), Moody's and Fitch:

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
HSBC Bank PLC	21%	AA-	AA	A1
JPMorgan Chase Bank	18%	A+	AA-	Aa3
Toronto Dominion Bank	15%	AA-	AA-	Aaa
Westpac Banking Corporation	11%	AA-	AA-	Aa2
Barclays Bank Plc Wholesale	10%	A+	A	A2
USB AG London	8%	A	A	A2
BNP Paribas SA	6%	AA-	A+	A2
Royal Bank Of Canada (UK)	4%	AA-	AA	Aa3
Societe Generale	2%	A	A+	A2
Morgan Stanley and Co. International PLC	1%	A-	A	Baa1
Deutsche Bank AG London	1%	A+	A+	A2
Royal Bank Of Scotland PLC	1%	A	A	A3
UBS AG	1%	A	A	A2
Credit Suisse London Branch (GFX)	1%	A+	A	A1

B. Interest Rate Risk

During Fiscal Year 2012 the Agency was exposed to interest rate risk. For more details refer to the Interest Rate Risk Note 3D (GASB Statement No. 40).

C. Foreign Currency Risk

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

5. CONTRIBUTIONS

The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected. Members of the State Police and Judges' Retirement Systems are required to contribute 8% and 6% of earnable compensation, respectively and beginning July 1, 2012, members of the Judges Retirement System are required to make contributions of 8% of earnable compensation. Members of the Teachers' and Employees' Pension System, Alternate Contributory Pension Selection (ACPS), are required to contribute 7% of earnable compensation. 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 Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

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

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

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund, and more than 150 participating governmental units make all of the employer and other (non-employer) contributions to the System.

6. LONG-TERM CONTRIBUTIONS RECEIVABLE

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

June 30, 2012 and 2011, the outstanding balances were $41,828 and $45,311 (expressed in thousands), respectively. These payments are due over various time periods, based on the date of the employer's withdrawal.

7. REFUNDS

Member contributions plus interest may be refunded to a member who withdraws from the System, or to the designated beneficiary following a member's death. Employer contributions may also be refunded with interest to any participating governmental unit electing to withdraw from the System. For the fiscal years ended June 30, 2012 and 2011, refunds to members and withdrawing employers were $33,819 and $33,369 (*expressed in thousands*), respectively.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2012 and 2011, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2012	**2011**
Administrative expenses	$ 2,996	$ 3,218
Investment management fees	22,715	26,203
Tax and other withholdings	29,344	30,591
Total	$ 55,055	$ 60,012

9. FUNDED STATUS AND FUNDING PROGRESS

Description of Schedule of Funded Status

The **Schedule of Funded Status** summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2012. The data presented in the schedule below was obtained from the System's independent actuary's annual valuation report as of June 30, 2012.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2012, the System's funded ratio decreased from 64.70% to 64.37%.

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, 2012, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 188% at June 30, 2011 to 199% as of June 30, 2012.

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

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

Assets are valued for funding purposes using a 5-year smoothing method of recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The 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, 2012 is as follows (dollar amounts expressed in thousands):

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]
$37,248,401	$57,869,145	$20,620,744	64.37%	$10,336,537	199%

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Individual Entry Age Normal Cost Method
Amortization Method	Level percent of payroll (period closed)
Remaining Amortization Period	8 years remaining as of June 30, 2012 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. 30 years is used wherever the equivalent single amortization period exceeds 30 years.
Asset Valuation Method	5-year smoothed market (max.120% and min.80% of market value.)
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected salary increases	3.50% - 12.0%
Including wage inflation of 3.5%	2.75% - 3.50% for service prior to July 1, 2011.*
COLAs/Inflation Rate	1.70% - 3.5% for service after June 30, 2011. *
	*Based on System and provisions.

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]
2003	$ 32,631,465	$ 34,974,601	$ 2,343,136	93.30 %	$ 8,134,419	29 %
2004	33,484,657	36,325,704	2,841,047	92.18	8,069,481	35
2005	34,519,500	39,133,450	4,613,950	88.21	8,603,761	54
2006	35,795,025	43,243,492	7,448,467	82.78	9,287,576	80
2007 **	37,886,936	47,144,354	9,257,418	80.36	9,971,012	93
2008	39,504,284	50,244,047	10,739,763	78.62	10,542,806	102
2009	34,284,569	52,729,171	18,444,603	65.02	10,714,241	172
2010	34,688,346	54,085,081	19,396,735	64.14	10,657,944	182
2011	36,177,656	55,917,543	19,739,887	64.70	10,478,800	188
2012	37,248,401	57,869,145	20,620,744	64.37	10,336,537	199

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITY

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2003	$ 654,578	$ 602,212	92 %
2004	710,632	632,462	89
2005	805,564	668,618	83
2006	874,079	716,745	82 *
2007	1,025,972	831,037	81
2008	1,183,765	1,053,551	89
2009	1,313,560	1,109,564	84
2010	1,519,980	1,308,920	86
2011	2,035,401	1,512,473	74
2012	2,146,624	1,521,761	77

* 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, 2012 (with Comparative 2011 Totals)
(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2012	Totals 2011
Fund Balances, Beginning of Year	$4,059,602	$33,533,150	$ -	$37,592,752	$31,923,637
Additions					
Net investment (loss) income	-	345,572	(241,489)	104,083	6,273,337
Contributions:					
Employers	-	697,547	-	697,547	612,277
Members	703,256	-	-	703,256	528,028
Other	-	895,691	-	895,691	897,438
Contribution interest	-	2,523	-	2,523	2,757
Deductions					
Benefit payments	-	(2,755,106)	-	(2,755,106)	(2,580,392)
Refunds	(33,819)	-	-	(33,819)	(33,369)
Administrative expenses	-	-	(28,201)	(28,201)	(30,961)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	117,006	(117,006)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(190,605)	190,605	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(269,690)	269,690	-	-
Net changes in fund balances	595,838	(1,009,864)	-	(414,026)	5,669,115
Fund Balances, End of Year	$4,655,440	$32,523,286	$ -	$37,178,726	$37,592,752

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2012 and 2011

(Expressed in Thousands)

	2012	**2011**
Personnel services		
Staff salaries	$12,106	$11,681
Fringe benefits	4,816	5,923
Total personnel services	16,922	17,604
Professional and contractual services		
Actuarial	356	665
Legal and financial	1,146	609
Consulting services	940	67
Data processing	4,359	7,545
Other contractual services	923	355
Total professional and contractual services	7,724	9,241
Miscellaneous		
Communications	478	756
Rent	1,736	1,835
Equipment and supplies	272	392
Other	1,069	1,133
Total miscellaneous	3,555	4,116
Total Administrative Expenses	$28,201	$30,961

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF INVESTMENT EXPENSES

for the Fiscal Years Ended June 30, 2012 and 2011

(Expressed in Thousands)

	2012	2011
Investment advisors		
Public equity	$62,844	$70,639
Fixed income (includes debt related)	43,851	29,829
Alternative investments managers	122,480	104,844
Total investment advisory fees	229,175	205,312
Other investment service fees		
Currency overlay	9,220	13,399
Other investment expenses	3,094	2,532
Total other investment service fees	12,314	15,931
Total Investment Expenses	$241,489	$221,243

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MARYLAND STATE RETIREMENT

SCHEDULE OF PLAN NET

as of June 30, 2012

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets::			
Cash & cash equivalents (note 3)	$ 1,317,342	687,581	35,186
Receivables:			
Contributions:			
Employers	3	17,282	589
Employers - Long Term (note 5)	-	41,828	-
Members	3,237	9,077	3
Accrued investment income	92,039	52,032	1,273
Investment sales proceeds	491,688	276,912	6,816
Due from other systems	-	84	-
Total receivables	586,967	397,215	8,681
Investments, at fair value (notes 2 & 3)			
U.S. Government obligations	1,959,451	1,099,566	27,163
Domestic corporate obligations	1,702,855	955,574	23,606
International obligations	792,242	444,575	10,983
Domestic stocks	4,843,899	2,718,204	67,149
International stocks	4,940,549	2,772,439	68,489
Mortgages & mortgage related securities	1,510,937	847,878	20,945
Real estate	3,038	1,705	42
Alternative investments	5,829,891	3,271,503	80,817
Collateral for loaned securities	2,090,874	1,176,766	29,063
Total investments	23,673,736	13,288,210	328,257
Total assets	25,578,045	14,373,006	372,124
Liabilities:			
Accounts payable & accrued expenses	34,300	17,795	572
Investment commitments payable	949,750	535,321	13,146
Obligation for collateral for loaned securities	2,090,874	1,176,766	29,063
Other liabilities	1,508	852	21
Due to other systems	80	29	-
Total liabilities	3,076,512	1,730,763	42,802
Net assets held in trust for pension benefits	$ 22,501,533	12,642,243	329,322

AND PENSION SYSTEM

ASSETS BY SYSTEM

State Police Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
96,838	34,060	$ 2,171,007	$ -	$ 2,171,007
2,342	1,678	21,894	-	21,894
-	-	41,828	-	41,828
239	217	12,773	-	12,773
4,556	2,266	152,166	-	152,166
24,387	12,095	811,898	-	811,898
-	25	109	(109)	-
31,524	16,281	1,040,668	(109)	1,040,559
95,138	50,116	3,231,434	-	3,231,434
82,679	43,553	2,808,267	-	2,808,267
38,465	20,263	1,306,528	-	1,306,528
235,186	123,890	7,988,328	-	7,988,328
239,879	126,362	8,147,718	-	8,147,718
73,361	38,645	2,491,766	-	2,491,766
146	78	5,009	-	5,009
283,059	149,109	9,614,379	-	9,614,379
101,900	53,506	3,452,109	-	3,452,109
1,149,813	605,522	39,045,538	-	39,045,538
1,278,175	655,863	42,257,213	(109)	42,257,104
1,655	733	55,055	-	55,055
47,162	23,341	1,568,720	-	1,568,720
101,901	53,505	3,452,109	-	3,452,109
73	40	2,494	-	2,494
-	-	109	(109)	-
150,791	77,619	5,078,487	(109)	5,078,378
1,127,384	578,244	$ 37,178,726	$ -	$ 37,178,726

MARYLAND STATE RETIREMENT

SCHEDULE OF CHANGES IN

for the Fiscal Year Ended

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Additions:			
Contributions			
Employers	$ 21,874	$ 473,689	$ 45,537
Members	428,727	258,243	1,818
Other	895,691	-	-
Contribution Interest	-	2,523	-
Total contributions	1,346,292	734,455	47,355
Investment income:			
Net appreciation (depreciation) in fair value of investments	(673,094)	(380,251)	(5,746)
Interest	229,077	129,557	3,071
Dividends	630,802	355,809	8,490
Real estate operating net income	3,192	1,803	44
	189,977	106,918	5,859
Gross income from securities lending activity	14,615	8,028	269
Securities lending borrower rebates	(1,341)	(739)	(26)
Securities lending agent fees	(2,104)	(1,156)	(39)
Net Income from securities lending activity	11,170	6,133	204
Total investment income	201,147	113,051	6,063
Less investment expenses (note 2f)	(146,165)	(82,530)	(1,996)
Net investment income	54,982	30,521	4,067
Total additions	1,401,274	764,976	51,422
Deductions:			
Benefit payments	1,631,469	956,051	25,020
Refunds (note 6)	17,751	15,560	-
Administrative expenses (note 2f)	15,210	12,400	41
Total deductions	1,664,430	984,011	25,061
Net system transfers	(257)	127	-
Net increase (decrease) in plan assets	(263,413)	(218,908)	26,361
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	22,764,946	12,861,151	302,961
End of the fiscal year	$ 22,501,533	$ 12,642,243	$ 329,322

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

AND PENSION SYSTEM

PLAN NET ASSETS BY SYSTEM

June 30, 2012

State Police Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
$ 96,123	$ 60,324	$ 697,547	$ -	$ 697,547
6,234	8,234	703,256	-	703,256
-	-	895,691	-	895,691
-	-	2,523	-	2,523
102,357	68,558	2,299,017	-	2,299,017
(25,771)	(13,186)	(1,098,048)	-	(1,098,048)
11,205	5,586	378,496	-	378,496
30,910	15,347	1,041,358	-	1,041,358
158	77	5,274	-	5,274
16,502	7,824	327,080	-	327,080
798	498	24,208	-	24,208
(75)	(49)	(2,230)	-	(2,230)
(116)	(71)	(3,486)	-	(3,486)
607	378	18,492	-	18,492
17,109	8,202	345,572	-	345,572
(7,201)	(3,597)	(241,489)	-	(241,489)
9,908	4,605	104,083	-	104,083
112,265	73,163	2,403,100	-	2,403,100
100,977	41,589	2,755,106	-	2,755,106
280	228	33,819	-	33,819
189	361	28,201	-	28,201
101,446	42,178	2,817,126	-	2,817,126
37	93	-	-	-
10,856	31,078	(414,026)	-	(414,026)
1,116,528	547,166	37,592,752	-	37,592,752
$ 1,127,384	$ 578,244	$ 37,178,726	$ -	$37,178,726

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Investment Section

CHIEF INVESTMENT OFFICER'S REPORT

INVESTMENT OVERVIEW

The Maryland State Retirement and Pension System returned 0.36 percent in fiscal year 2012. After the payment of benefits, the market value of assets decreased by approximately $0.4 billion, from $37.5 billion on June 30, 2011 to $37.1 billion on June 30, 2012. All major asset classes produced positive returns for the year, with the exception of public equities, which were the largest detractor from performance in the fiscal year. The fund did not meet its actuarial return target of 7.75 percent, but was able to slightly outperform its policy benchmark of 0.28 percent.

The public equity asset class had a negative impact on total fund performance for the fiscal year, with a return of -6.8%. This return trailed the public equity blended benchmark of -6.1%. The public equity program has three components. The U.S. public equity portfolio returned 1.1 percent, trailing the return of the Russell 3000 Index, which returned 3.84 percent. The international equity portfolio returned -14.5 percent compared to -14.6 percent for its benchmark, the Morgan Stanley Capital International (MSCI) All Country World ex-U.S. Index. The global equity portfolio returned -6.3 percent compared to -6.5 percent for its benchmark, the MSCI AC World Index, a broad measure of stock performance in the developed and emerging markets. The outperformance of the international and global equity programs relative to their respective benchmarks can be attributed to gains from the currency overlay program as a result of a strengthening U.S. dollar relative to foreign currencies.

The fixed income portfolio returned 8.3 percent, compared to 7.3 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 3.1 percent compared to 8.5 percent for its blended benchmark: 50 percent BC Credit Index and 50 percent BC High Yield Index. The underperformance relative to the benchmark is due to a mismatch between the structure of the portfolio and the benchmark. The portfolio includes both private and public investment vehicles, whereas the benchmark includes only publicly traded securities. The portfolio was established in 2009 to take advantage of the dislocation in the credit markets, and is expected to provide near equity-like returns at a reduced level of risk.

The real return portfolio returned 4.6 percent, compared to 2.8 percent for its blended benchmark, which consists of the following three components:

- 30 percent Dow Jones UBS Commodities Index (total return);
- 10 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 3.7 percent, compared to -4.5 percent for its customized benchmark: Hedge Funds Research, Inc. (HFRI) Fund of Funds Index. The real estate portfolio returned 8.7 percent versus 9.9 percent for its blended benchmark: Wilshire U.S. Real Estate Securities Index (Wilshire RESI), National Council of Real Estate Investment Fiduciaries Property Index (NCREIF), and the Financial Times Stock Exchange European Public Real Estate Association (FTSE EPRA) /National Association of Real Estate Investment Trust (NAREIT) Global ex-U.S. indices.

The private equity program returned 7.5 percent, compared to the 7.3 percent return of its customized benchmark, the State Street Private Equity Index (one quarter lag).

The System's Terra Maria program returned -2.5 percent, compared to -1.5 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, 2011 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 at least 3 percent**. The inflation related-objective compares the investment performance against a rate of inflation measured by the Consumer Price Index (CPI) plus 3 percent. The inflation measure provides a link to the System's liabilities, which have an embedded sensitivity to changes in the inflation rate.

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

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

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

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

The Board's long-term asset class targets and ranges as of June 30, 2011 are shown below.

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

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

INVESTMENT PERFORMANCE

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

The investment program realized a return of 0.36 percent for fiscal year 2012. Annualized returns for the three-, five-, 10- and 20-year periods ending June 30, 2012 were 11.2 percent, 0.8 percent, 5.9 percent and 6.8 percent, respectively.

	FY 2012 SRPS Performance	FY 2012 Benchmark Performance	SRPS Exposure June 30, 2012
Public Equity	-6.8%		42.4%
Custom Benchmark		-6.1%	
U.S. Equity	1.1%		13.0%
S&P 500		5.5%	
Russell 3000		3.8%	
International Equity	-14.5%		15.0%
MSCI ACWI ex. U.S.		-14.6%	
MSCI EAFE		-13.8%	
MSCI Emerging Markets		-16.0%	
MSCI World ex U.S.		-14.1%	
Global Equity	-6.3%		14.4%
MSCI AC World		-6.2%	
Private Equity	7.5%		5.7%
Custom State Street PE		7.3%	
Russell 3000 + 300 BPS		7.0%	
Fixed Income	8.3%		19.2%
Custom Benchmark		7.3%	
BC Aggregate		7.5%	
BC Global Bond Agg		2.7%	
Credit / Debt Strategies	3.1%		7.8%
Custom Benchmark		8.5%	
BC Credit		9.5%	
BC High Yield		7.3%	
Real Estate	8.7%		6.4%
Custom Benchmark		9.9%	
Wilshire RESI		12.6%	
NCREIF		13.4%	
FTSE EPRA NAREIT		-5.7%	
Real Return	4.6%		10.0%
Custom Benchmark		2.8%	
Absolute Return	3.7%		6.8%
Custom Benchmark		-4.5%	
TOTAL FUND	**0.4%**	**0.3%**	

The SRPS allocation as of June 30, 2012 reflects the ranges and transitional targets as described in the previous section.

ECONOMIC AND CAPITAL MARKET OVERVIEW

Global growth was sluggish in fiscal 2012 as the deleveraging process continued and Europe tried to manage its sovereign debt and banking crises. U.S. Gross Domestic Product grew at a 2% rate, while Europe's growth rate was flat. China's growth rate slowed to 7.6% as demand stagnated or fell in key export markets such as the U.S. and Europe.

Global equity markets, particularly non-U.S. equities, experienced significant volatility. As a result of uncertainty surrounding the government debt ceiling in the U.S., and the sovereign debt crises in Europe, global stock markets fell precipitously in the summer of 2011, and stayed depressed throughout most of the fall. The U.S. equity market was able to recover over the remainder of the fiscal year to a positive gain of 3.8%, as represented by the Russell 3000 index. This reflected the relative financial health of businesses, even as they remained hesitant to increase payrolls and governments actively cut their payrolls. Foreign equities did not fare as well, posting a return for the fiscal year of -14.6% as represented by the MSCI All-Country World ex-U.S. index. Given the global nature of the System's investment allocation, the poor performance of foreign equities was the largest detractor from performance for the fiscal year.

The fiscal year proved to be a very favorable environment for fixed income investments. Interest rates fell over the course of the year to near all-time lows as investors flocked to the relative safety of bonds, and the Federal Reserve continued its QE2 program of buying long-term treasury bonds. The Fed also provided guidance that short-term rates would remain low at least through 2014. In addition, default rates remain very low, also reflecting the renewed financial health of the U.S. corporate sector. This backdrop, coupled with a benign inflation rate of 1.7%, provided attractive returns for U.S. fixed income investments. The Barclays Capital Aggregate Bond Index returned 7.5%, while the Barclays Capital High Yield Index returned 7.3%.

In summary, fiscal year 2012 was characterized by the impact of macroeconomic events and policy decisions on global capital markets. And, while uncertainty prevailed in both U.S. and international markets during the first part of the year, the new calendar year brought significant divergence between the U.S. and international equity markets, particularly Europe.

PUBLIC EQUITIES

As of June 30, 2012, approximately $15.7 billion of total assets were invested in public equities, representing 42.4 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 global public equity opportunity set.

The System's Terra Maria (T.M.) program, which is discussed below in more detail, is an integral part of the public equities asset class. At June 30, 2012, 78.0 percent of the Terra Maria program was invested in public equities with 48.3 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, 2012, approximately $4.8 billion or 13.0 percent of total assets was invested in U.S. equities. Passively managed equities totaled $2.3 billion, while actively managed assets outside of the Terra Maria program totaled $1.0 billion and Terra Maria program assets were $1.5 billion, representing 6.2 percent, 2.7 percent, and 4.1 percent of total assets, respectively.

U.S. Equity	$ Millions	% of Total Plan
Passively Managed	**$2,290.6**	**6.2%**
Actively Managed (exclude T.M.)	**$1,019.1**	**2.7%**
Terra Maria Program	**$1,505.9**	**4.1%**
Total U.S. Equity	**$4,815.5**	**13.0%**

For FY 2012, U.S. equities returned 1.1 percent, compared to 3.8 percent for its benchmark, the Russell 3000 Index.

B. International Equities

As of June 30, 2012, approximately $5.6 billion or 15.0 percent of total assets were invested in international equities. Passively managed assets totaled approximately $2.8 billion, while actively managed assets outside of the Terra Maria program totaled approximately $2.1 billion and Terra Maria assets were $0.7 billion, representing 7.5 percent, 5.6 percent and 1.8 percent of total assets, respectively. As more fully described below, the System has instituted a currency overlay program which is designed to protect the value of some foreign equities in a rising dollar environment and reduce volatility.

International Equity	$ Millions	% of Total Plan
Passively Managed	**$2,788.7**	**7.5%**
Actively Managed (exclude T.M.)	**$2,087.6**	**5.6%**
Terra Maria Program	**$682.5**	**1.8%**
Currency Overlay	**$15.6**	**0.0%**
Total International Equity	**$5,574.4**	**15.0%**

For FY 2012, international equities returned -14.5 percent compared to -14.6 percent for its benchmark, the MSCI All Country World ex-U.S. Index.

C. Global Equities

As of June 30, 2012, approximately $5.3 billion or 14.4 percent of total assets were invested in global equities. Actively managed assets outside of the Terra Maria program totaled $4.5 billion, and Terra Maria assets were $0.2 billion, representing 12.3 percent and 0.7 percent of total assets, respectively. The currency overlay program, which is designed to protect the value of some foreign equities in a rising dollar environment and reduce volatility, is also applied to the global equity program.

Global Equity	$ Millions	% of Total Plan
Passively Managed	**$521.9**	**1.4%**
Actively Managed (exclude T.M.)	**$4,549.3**	**12.3%**
Terra Maria Program	**$243.0**	**0.7%**
Currency Overlay	**$16.0**	**0.0%**
Total Global Equity	**$5,330.2**	**14.4%**

For FY 2012, global equities returned -6.3 percent compared to -6.5 percent for its benchmark, the MSCI All Country World Index.

CURRENCY MANAGEMENT PROGRAM

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

During fiscal year 2012, the currency program added value in the international and global public equity programs as the U.S. dollar strengthened relative to other currencies. The gain to the System's portfolio as a result of using this systematic currency overlay strategy was $39.9 million. In addition to having a positive impact on performance during the fiscal year, it has served to reduce volatility and improve the risk/return profile of the international and global equity programs since its inception.

PRIVATE EQUITY

As of June 30, 2012, private equities totaled roughly $2.1 billion, or 5.7 percent of total assets. This asset class includes buyouts, growth equity, venture capital, secondaries and funds-of-funds.

In fiscal year 2012, commitments were made to 12 private equity funds totaling $619 million. Since the inception of the private equity program, commitments have been made totaling roughly $4.4 billion to 99 different funds. In fiscal year 2012, the private equity program returned 7.5 percent, compared to the benchmark's return of 7.3 percent.

In fiscal 2013, we expect that exposure to private equity will continue to increase toward its long-term targeted levels as unfunded commitments of $2.0 billion are drawn down. We have seen a return to a more normal cycle of distributions and capital calls and we expect an increased pace of new commitments relative to the previous two fiscal years. It will take several more years for the target allocation of 10.0 percent to be reached in a prudent manner.

FIXED INCOME

The fixed income markets performed well during fiscal 2012 as interest rates fell sharply during the year. The 10 year treasury rate dropped by roughly 150 basis points, which was mainly driven by the Fed's "Operation Twist" and slow economic growth. Investment grade credit securities continued to perform well as credit spreads contracted. As of June

30, 2012, fixed income holdings represented $7.1 billion, or 19.2 percent of total assets. The relative performance of the fixed income portfolio was strong, returning 8.3 percent for the fiscal year, versus 7.3 percent for the policy benchmark.

CREDIT/DEBT STRATEGIES

The credit/debt strategies portfolio totaled approximately $2.9 billion, representing 7.8 percent of total assets as of June 30, 2012. Investments in this asset class include both liquid securities and illiquid private structures. The System has funded the program with mezzanine debt, high yield bonds, distressed debt, emerging market debt, bank loans and the Public-Private Investment Program. The portfolio has a blended benchmark of 50 percent Barclays U.S. Credit Index and 50 percent Barclays U.S. High Yield Index. The portfolio returned 3.1 percent for the fiscal year, versus 8.5 percent for its benchmark. While the absolute return was positive, the portfolio underperformed its benchmark primarily due to an underweight to investment grade credit and the underperformance of the private distressed debt portfolio.

In fiscal 2013, we expect the exposure to credit/debt strategies will continue to increase towards its long-term target of 10 percent of plan assets, as unfunded commitments are drawn down and additional funds are allocated to credit-related investments.

REAL ESTATE

The real estate portfolio returned 8.7 percent in fiscal year 2012, versus 9.9 percent for its custom benchmark, a blend of the NCREIF, FTSE-EPRA NAREIT and Wilshire indices. At the end of the fiscal year, 6.4 percent of total assets, valued at $2.4 billion, was invested in real estate, compared to 5.8 percent or $2.2 billion invested at the same time last year. The program includes publicly-traded securities and private investment funds. During the year the remaining investments in the direct real estate portfolio were liquidated.

Performance of institutional quality private real estate is reflected in the results of the NCREIF property index, a widely utilized measure of privately owned commercial real estate. The NCREIF property index returned 13.4 percent for the twelve months ending March 31, 2012. Returns for all four major property types were positive during the period. Public real estate securities, as measured by the Wilshire Real Estate Securities Index and the FTSE EPRA Global ex-U.S. Index, had one-year returns of 12.6 percent and -5.7 percent respectively.

Long-term improvement in commercial real estate fundamentals is driven by employment growth. Economic uncertainty has left companies unwilling to hire at a more robust rate, and continues to delay meaningful improvement in property fundamentals. Multi-family continues to see the strongest improvement in fundamentals.

REAL RETURN

The real return portfolio totaled approximately $3.7 billion, representing 10.0 percent of total assets as of June 30, 2012. The objective of the asset class is to provide a level of protection against inflation, event risk, and enhance diversification for the total fund. As of June 30, 2012, the largest components of the asset class were Treasury Inflation Protected Securities (TIPS) and global inflation-linked bonds totaling $2.2 billion, or 5.9 percent of total assets. There was also an allocation to commodities, representing $918 million, or 2.5 percent of total assets. The remaining assets consist of publicly-traded Master Limited Partnerships (MLPs) and private investments in infrastructure, timber and energy-related assets.

The real return portfolio returned 4.6 percent in fiscal 2012 versus 2.8 percent for its custom benchmark. The main drivers of outperformance relative to the benchmark were commodities, MLPs and private energy-related investments.

ABSOLUTE RETURN

The Absolute Return portfolio totaled approximately $2.5 billion, representing 6.8 percent of total assets as of June 30, 2012. The portfolio consists of three global macro funds, two multi-asset strategies and two funds of funds. Its goal is to provide diversification for the total plan through its low correlation to the broad financial markets and is benchmarked to the HFRI Fund of Funds Composite Index. The portfolio outperformed the benchmark in fiscal 2012, returning 3.68 percent versus -4.44 percent for the HFRI Index.

TERRA MARIA PROGRAM

Terra Maria publicly-traded assets totaled approximately $3.1 billion, or 8.4 percent of total assets at June 30, 2012. The program returned -2.5 percent for the fiscal year, compared to the custom benchmark return of -1.5 percent. The relative performance results remain positive since the April 2007 inception of the program.

The Terra Maria program seeks to identify promising smaller or developing managers. The seven existing public market program managers serve as an extension of staff to source investment managers, perform manager due diligence, monitor managers and prepare manager "hire/fire" and funding recommendations. The seven program managers are Attucks Asset Management, Bivium Capital Partners, Capital Prospects, FIS Group, Leading Edge Investment Advisors, Northern Trust Global Advisors and Progess Investment Management Company. During fiscal year 2011, the Terra Maria program was expanded to include investments in private equity partnerships. Since the expansion of Terra Maria into private equity, commitments totaling $495 million to eight funds have been made. In the Terra Maria program as well as in other parts of the fund's portfolio, the Chief Investment Officer has the ultimate responsibility for making manager selection and termination decisions, and for determining funding allocations.

CONCLUSION

Fiscal year 2012 was marked by a wide disparity of investment returns among asset classes. Bonds achieved strong performance as interest rates fell to new lows, while global stocks struggled as uncertainty surrounding Europe and global growth continued. While the fund did not achieve its absolute long-term target rate of return during the 2012 fiscal year, significant progress was made in transitioning the fund closer to long-term target allocations and improving the diversification profile of the fund. In addition, the fund's performance exceeded the policy benchmark, indicating overall success of the active management of the fund. During a period of lower returns, it is important to maintain a long-term investment outlook with the understanding that there will be volatility when measured over shorter time periods. The Agency's investment staff will continue to navigate the challenging economic environment and seek attractive investment opportunities to prudently invest the assets of the plan.

I appreciate the continued hard work and dedication of the Agency's investment staff and consultants. I am also grateful for the guidance and support of the Board of Trustees as we continue to manage the fund in the best interests of its participants and beneficiaries.

Respectfully submitted,

A. M. Moye

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

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2012 and 2011
(Expressed in Thousands)

	2012		2011	
	Fair Value	**% of Fair Value**	**Fair Value**	**% of Fair Value**
Fixed Income				
Fixed Income	$ 7,164,345	19.2 %	$ 8,096,399	21.5 %
Credit Opportunity	2,847,245	7.8	2,165,396	5.8
(2) Net cash & cash equivalents (manager)	12,463	0.0	-408,642	-1.1
Total Fixed Income	10,024,053	27.0	9,853,153	26.2
Equity				
Domestic stocks	4,730,999	12.8	6,045,861	16.2
Global stocks	5,218,166	14.1	4,518,542	12.0
International stocks	5,397,205	14.5	6,948,271	18.5
(2) Net cash & cash equivalents (manager)	373,729	1.0	203,168	0.5
Total Equity	15,720,099	42.4	17,715,842	47.2
Alternative Investment				
Absolute Return	2,533,355	6.8	1,639,961	4.4
Private Equity	2,107,611	5.7	1,618,325	4.3
Real Estate (includes private)	2,342,354	6.4	2,152,166	5.7
Real Return	3,405,411	9.2	3,773,469	10.2
(2) Net cash & cash equivalents (manager)	293,384	0.8	103,452	0.3
Total Alternative Investments	10,682,115	28.9	9,287,373	24.9
Cash				
(1) Total Cash (non-manager)	646,343	1.7	652,199	1.7
Total Portfolio	$ 37,072,610	100.0 %	$ 37,508,567	100.0 %

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

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2012
(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$ 4,628,496	$ 666
T. Rowe Price Associates, Inc.	1,005,780	3,526
BlackRock Financial Management, Inc.	969,064	124
Templeton Investment Counsel, Inc.	616,691	1,821
Baillie Gifford & Company	583,493	2,746
Marathon Asset Management	569,812	6,007
Acadian Asset Management	497,597	1,817
AQR Capital Management LLC	478,793	1,197
Northern Trust Global Advisors, Inc.(1)	473,996	2,078
Artisan Partners Limited Partnership	469,986	2,765
Progress Investment Management (1)	419,377	2,534
Brown Capital Management	411,002	2,403
Dimensional Fund Advisors, Inc.	386,334	2,289
D E Shaw & Co., LP	382,253	1,344
Capital Prospects, LLC (1)	348,678	1,569
FIS Group, Inc.(1)	343,732	1,869
Earnest Partners	336,587	1,857
Relational Investors	303,747	1,334
Attucks Asset Management, LLC (1)	302,271	1,826
UBS Global Asset Management, Inc.	280,590	1,129
Leading Edge Invest. Advisors, LLC (1)	278,683	2,217
Goldman Sachs Asset Management	265,132	1,343
Bivium Capital Partners(1)	264,409	1,770
Longview Partners Ltd.	253,993	1,533
Alliance Bernstein	203,867	1,052
Genesis Asset Management	193,153	1,830
Robeco Investment Management	178,846	1,420
Legg Mason Capital Management, Inc.	98,303	668
Zevenbergen Capital Investment LLC	87,985	969
Capital International Investments	37,673	1,200
Record Currency Management	31,525	8,814
Other (2)	18,251	8,158
	$15,720,099 (3)	$ 71,875

	Fair Value	Investment Advisory Fee
Fixed Income Managers		
Credit/Debt Related (1)	$ 2,717,726	$ 32,942
Western Asset Management	1,474,631	2,304
Pacific Investment Management Company	1,413,305	3,007
State Street Global Advisors	1,245,175	285
Pyramis Global Advisors	571,992	706
Aberdeen Asset Management, Inc.	570,246	929
Principal Global Investors	562,599	658
Goldman Sachs Asset Management	391,463	717
Dodge & Cox	390,720	568
Progress Investment Management (1)	291,306	556
Northern Trust Global Advisors, Inc.(1)	152,577	356
Attucks Asset Management, LLC (1)	102,312	297
Capital Prospects, LLC (1)	65,952	130
Leading Edge Invest. Advisors, LLC (1)	55,627	250
Bivium Capital Partners (1)	18,422	97
Other (2)	0	228
	$ 10,024,053 (3)	$ 44,030
Alternative Investment Managers		
Real Return (1)	3,674,813	23,170
Absolute Return (1)	2,535,421	26,041
Private Equity Funds (1)	2,107,611	44,517
Private Real Estate (1)	1,512,138	18,398
LaSalle Investment Management, Inc.	432,395	8,557
Morgan Stanley Investment Management	419,943	2,200
Record Currency Management (REITS)	(206)	406
Other (2)	0	1,892
	$ 10,682,115 (3)	$ 125,181
Cash Managers		
Internally Managed	$ 646,343	$ N/A
	$ 646,343 (3)	$ 0

(1) Sub-managers separately listed on the following page
(2) Consulting fees and/or investment managers no longer under contract as of 6/30/12
(3) Includes assets invested on behalf of the Maryland Transit Administration

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS RELATIONSHIP LISTING

as of June 30, 2012

Private Equity

Abbott Capital Private Equity Fund III
ABS Capital Partners VI LP
Adams Street Partners LLC
Advent Central & Eastern Europe IV LP
Advent International GPE V-D LP
Advent International GPE VI-A LP
Alchemy Partners LP
Apax Europe VI-A LP
Apax Europe VII-A LP
Apax France VIII
Apollo Investment Fund VII (AIF) LP
Arcadia II Beteiligungen BT GmbH & Co
Audax Private Equity Fund II LP
Audax Private Equity Fund III LP
Azure Capital Partners II LP
Azure Capital Partners III 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
BC European Capital IX LP
Black River Capital Partners Fund (Agriculture A) LP
Blackstone Capital Partners VI
Brazos Equity Advisors III LP
Bunker Hill Capital II LP
Calvert Street Capital Partners III
Camden Partners Strategic Fund IV
Carlyle Partners V LP
Charterhouse Capital Partners VIII LP
Charterhouse Capital Partners IX LP
Clayton, Dubilier & Rice Fund VIII
Commonwealth Capital Ventures IV LP
Crescent Capital Partners IV
CVC European Equity Partners V-B LP
Dover Street VII LP
ECI 8 LP
ECI 9 LP
Equistone Partners Europe IV
Everstone Capital Partners II LLC
Frazier Healthcare V LP
Frazier Healthcare VI LP
Frontier Fund
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
Hellman & Friedman Investors VII LLC
HgCapital 5 LP
HgCapital 6A LP
Hg Mercury
KKR European Fund III LP
Landmark Equity Partners XIV
Lexington Capital Partners VII
Lion Capital Fund I LP
Lion Capital Fund II LP
Lion Capital Fund III
Littlejohn Fund III LP
Littlejohn Fund IV LP
Longitude Venture Partners LP
Madison Dearborn Capital Partners V LP
Madison Dearborn Capital Partners VI LP
MD Asia Investors, LP
Navis Asia Fund VI
New Mountain Partners III LP
North Sky Clean Tech Fund IV LP
Orchid Asia V
Partners Group Secondary 2008 LP
Partners Group Secondary 2011 LP
Partners Group Emerging 2011 LP
Permira IV LP 2
Private Equity Partners Fund IV
Quaker BioVentures II
Riverside Capital Appreciation V LP
Riverside Europe Fund IV LP
RLH Investors II LP
RLH Investors III LP
Summer Street Capital Fund II LP
Summer Street Capital Fund III LP
Symmetric Partners LP
TA X LP
TA XI LP
TPG Partners VI LP
Triton Fund III
Valhalla Partners II LP
Vector Capital IV LP
Vestar Capital Partners V LP
Vista Equity Partners IV
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
CB Richard Ellis Strategic Partners US Value 6 LP
Chesapeake Maryland Limited Partnership
Federal Capital Partners II
Frogmore Real Estate Partners II
GI Partners Fund III LP
Europe Fund III LP
JER Real Estate Partners Fund IV LP
JP Morgan Investment Management Inc
Lion Industrial Trust
Lone Star Real Estate Fund II
Lubert Adler Real Estate Fund III
Lubert Adler Real Estate Fund VI and VI-A
MGP Asia Fund III LP
PRISA II (Prudential Real Estate Investors)
Realty Associates Fund IX
Rockwood Capital Real Estate Partners Fund VIII LP
Secured Capital Japan Real Estate Partners Asia LP
Secured Capital Japan Real Estate Partners IV LP
Starwood Debt Fund II LP
Starwood Hospitality Fund II

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

ALTERNATIVE INVESTMENTS RELATIONSHIP LISTING

as of June 30, 2012

(continued)

Real Return

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

Absolute Return

BGI Global Ascent
Bridgewater All Weather
Bridgewater Pure Alpha
DGAM Diversified Strategies Fund
Mellon Global Alpha II
PIMCO All Asset
Rock Creek Potomac Fund

FIXED INCOME RELATIONSHIP LISTING

as of June 30, 2012

Credit/Debt Related

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

TERRA MARIA PROGRAM

as of June 30, 2012

Terra Maria Program

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

Brokers *	Total Shares	Total Commission
State Street Global Markets	385,055	$ 1,096
Macquarie Securities	288,345	319
Credit Suisse Securities	178,525	754
Merrill Lynch	119,604	804
J P Morgan Securities	89,468	804
UBS	84,789	401
Goldman Sachs	79,441	685
Deutsche Bank	77,961	453
Morgan Stanley	72,797	637
Citigroup Global Markets	66,774	504
Credit Lyonnais Securities	66,197	162
Pershing	60,839	270
Investment Technology Group	56,304	248
Instinet	51,901	310
Nomura Securities	45,733	278
G Trade Services Ltd.	43,401	172
Barclays Capital, Inc.	30,803	383
Loop Capital Markets	20,772	226
CLSA	18,830	193
Credit Agricole	16,606	196
Sanford C. Bernstein	10,079	195
Williams Capital	8,205	130
Cantor Fitzgerald	7,800	134
Converge Execution Solutions LLC	6,983	212
Jefferies & Company	6,874	194
Knight Securities	5,014	116
Percival Financial	4,953	166
Other Broker Fees	217,189	3,241
Total broker commissions	2,121,242	$ 13,283

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

For the fiscal year ended June 30, 2012, total domestic equity commissions averaged 66 cents per share, and total international equity commissions averaged 12.73 basis points per share.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LARGEST STOCK & BOND HOLDINGS AT MARKET

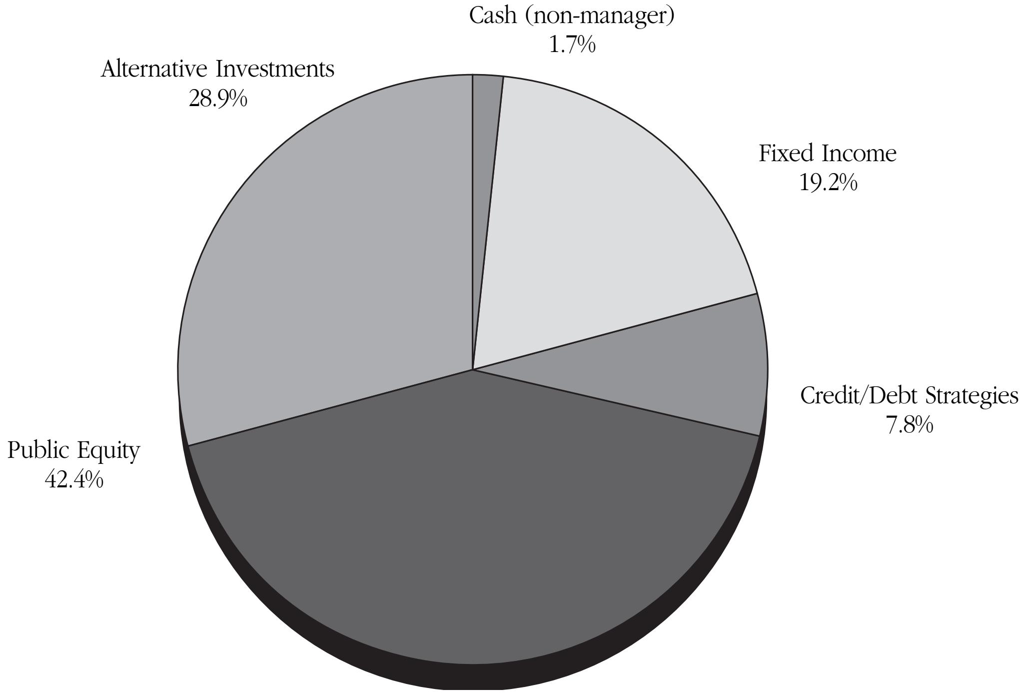
as of June 30, 2012

EQUITY INCOME SECURITIES:	Shares	Market Value
Apple, Incorporated	507,320	$ 296,274,880
Exxon Mobil Corporation	1,411,785	120,806,442
Google, Incorporated	172,706	100,181,569
Microsoft Corporation	3,208,928	98,161,108
Pfizer Inc.	4,230,027	97,290,621
Amazon.Com Inc	394,630	90,113,761
Nestle SA	1,496,037	89,382,876
JP Morgan Chase & Company	2,387,635	85,310,199
General Electric Company	3,892,988	81,129,870
HSBC Holdings	8,759,499	77,088,625
Baidu Inc. ADR	663,518	76,291,300
Pepsico Inc.	1,057,717	74,738,283
Chevron Corporation	689,903	72,784,767
Roche Holding AG Genusschein	385,868	66,696,254
Oracle Corp	2,135,630	63,428,211
AT & T Inc.	1,749,561	62,389,345
Philip Morris International	712,331	62,158,003
Johnson & Johnson	890,863	60,186,704
Hewlett Packard Company	2,976,515	59,857,717
Merch & Company Inc.	1,413,559	59,016,088

FIXED INCOME SECURITIES	Par Value	Market Value
Unites States Treasury Notes, .125%, due April 15, 2016	$ 146,330,323	$ 152,314,866
Unites States Treasury Bonds, 2.375%, due Jan 15, 2025	100,459,912	136,500,409
Federal National Mortgage Assn., TBA 3.5%, due Aug 1, 2041	121,085,000	126,930,984
Unites States Treasury Notes, 1.125%, due Jan 15, 2021	109,129,912	125,680,938
Unites States Treasury Notes, 1.75%, due May 15, 2022	101,883,000	102,711,309
Unites States Treasury Bonds, 2.375%, due Jan 15, 2027	74,357,996	99,800,525
Unites States Treasury Notes, .125 %, due Jan 15, 2022	81,246,134	85,968,371
Unites States Treasury Bonds, 3.875%, due April 15, 2029	49,535,184	81,488,310
United States Treasury Bill, .01%, due July 5, 2012	77,974,000	77,973,727
Unites States Treasury Bonds, 3.625%, due April 15, 2028	48,692,936	77,372,926
Unites States Treasury Notes, 1.875%, due Jan 15, 2015	62,229,486	67,732,169
Unites States Treasury Notes, 1.625%, due July 15, 2015	60,411,680	64,251,343
Unites States Treasury Bonds, 2.0%, due Jan 15, 2026	49,593,377	63,317,657
Unites States Treasury Bonds, 3.125%, due Feb 15, 2042	54,737,500	58,790,543
Unites States Treasury Notes, .25%, due May 31, 2014	58,401,000	58,328,850
Bundesrepublik Deutschland, 4.25%, due July 4, 2017	36,630,000	54,720,174
Unites States Treasury Bonds, 2.125%, due Feb 15, 2041	38,201,465	54,559,818
Federal National Mortgage Assn., TBA 4.0%, due Dec 1, 2099	50,500,000	53,648,170
Unites States Treasury Notes, 2.0%, due Nov 15, 2021	50,440,000	52,296,192
Unites States Treasury Bonds, 1.25%, due Nov 22, 2027	27,203,072	52,249,600

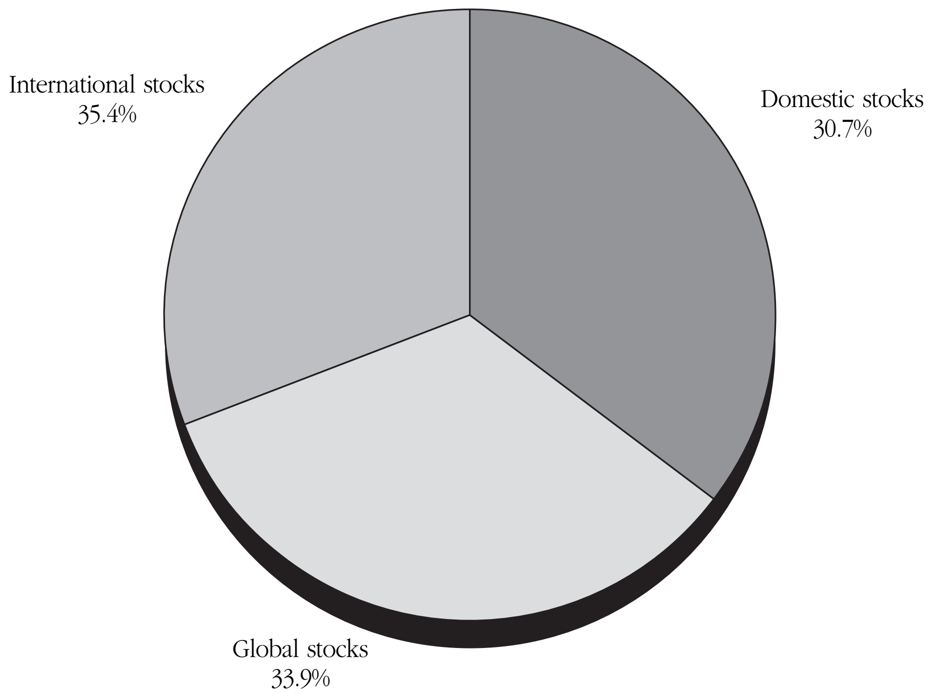
A complete list of portfolio holdings is available upon request.

INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2012



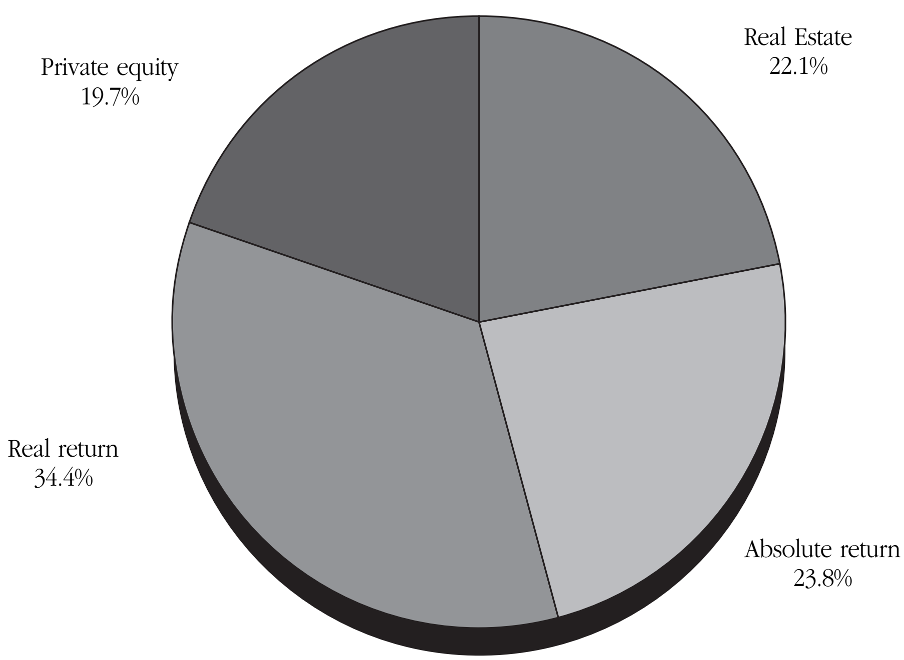
EQUITY DISTRIBUTION BY TYPE

as of June 30, 2012



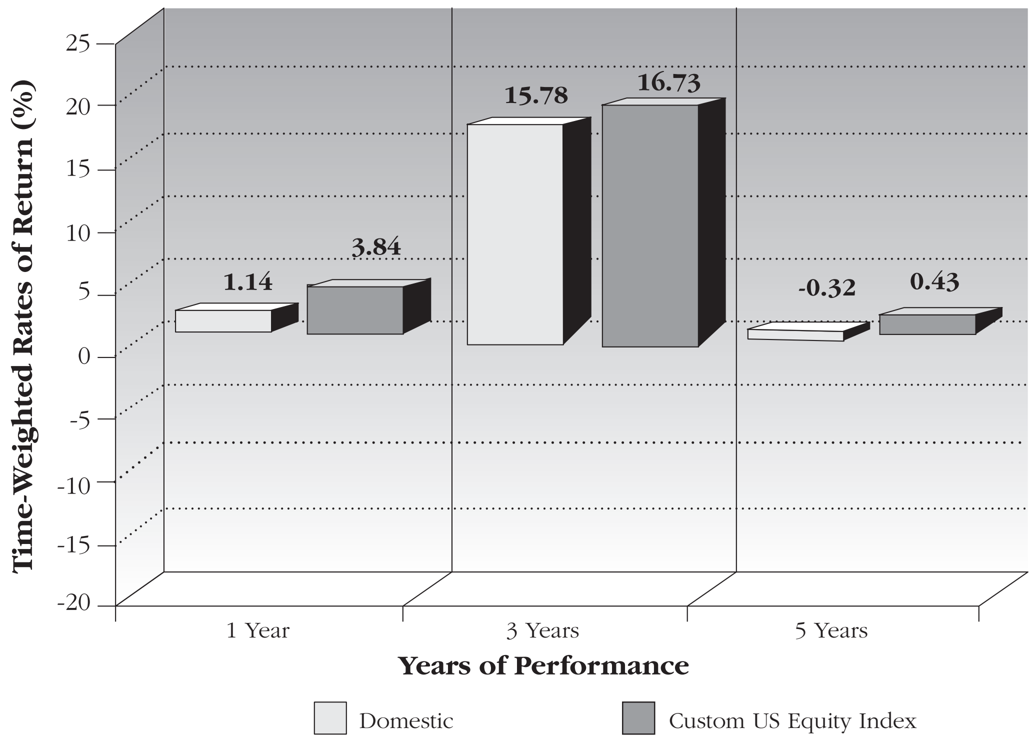
ALTERNATE INVESTMENT DISTRIBUTION BY TYPE

as of June 30, 2012

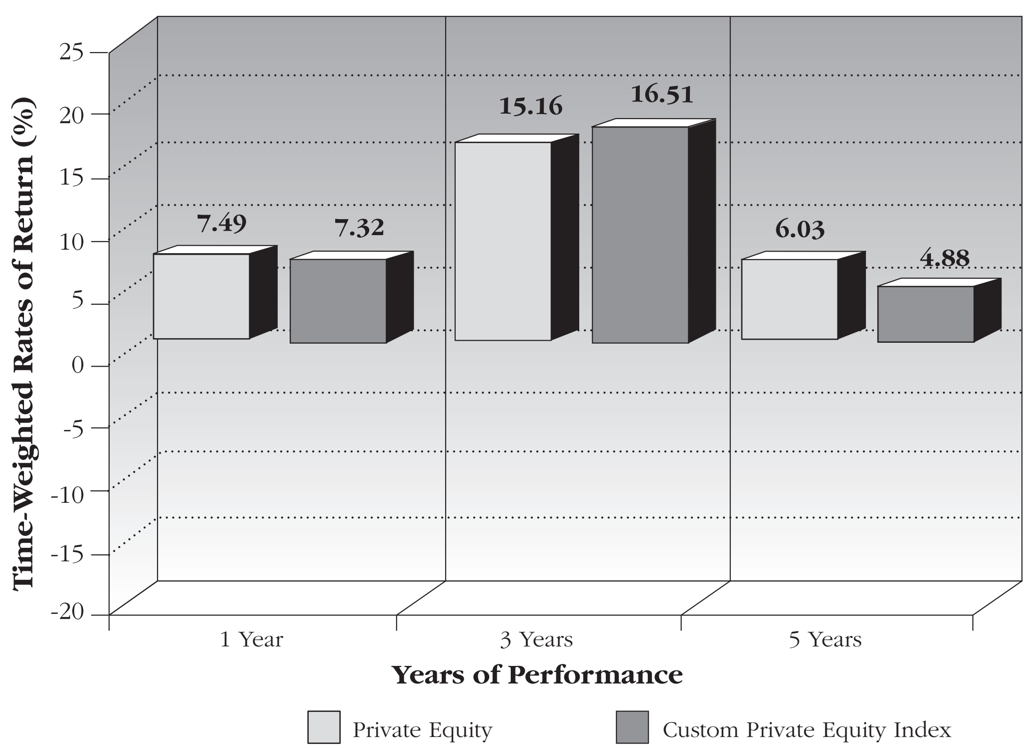


Comparative Investment Returns Ending June 30, 2012

DOMESTIC EQUITY

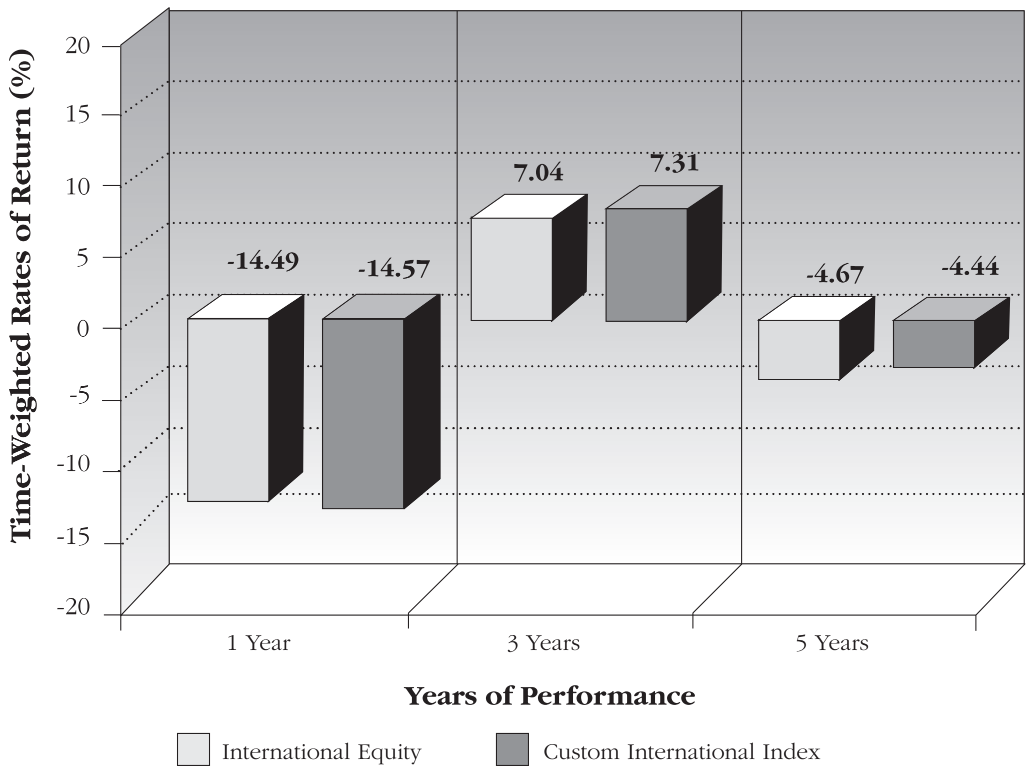


PRIVATE EQUITY

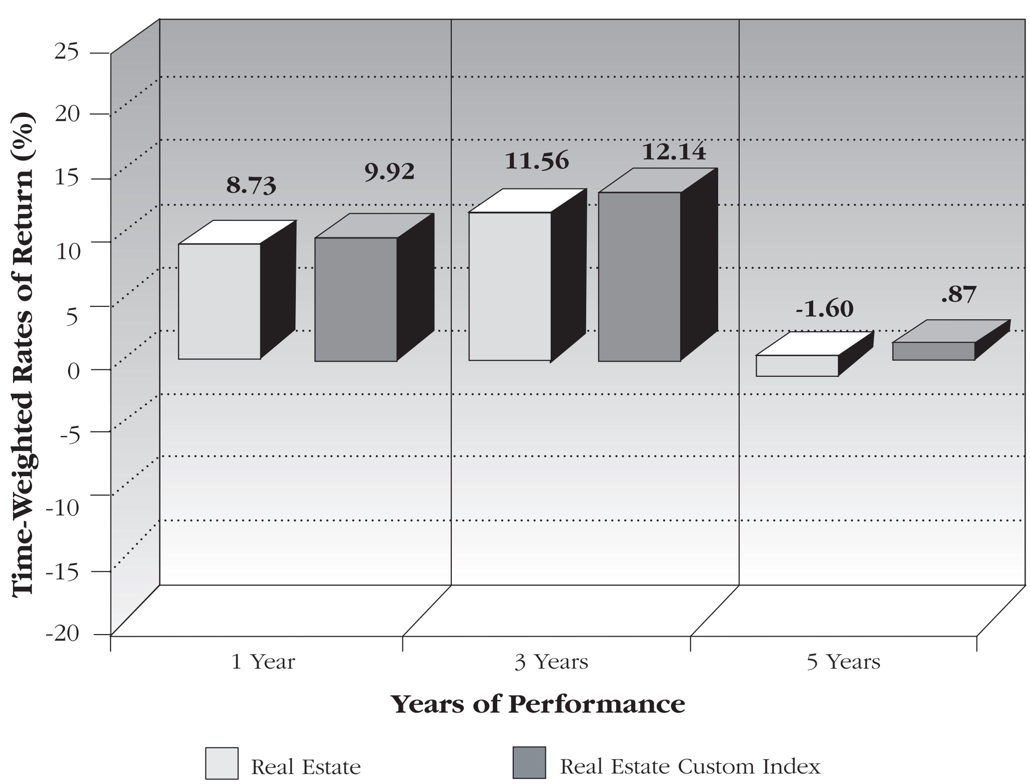


Comparative Investment Returns Ending June 30, 2012

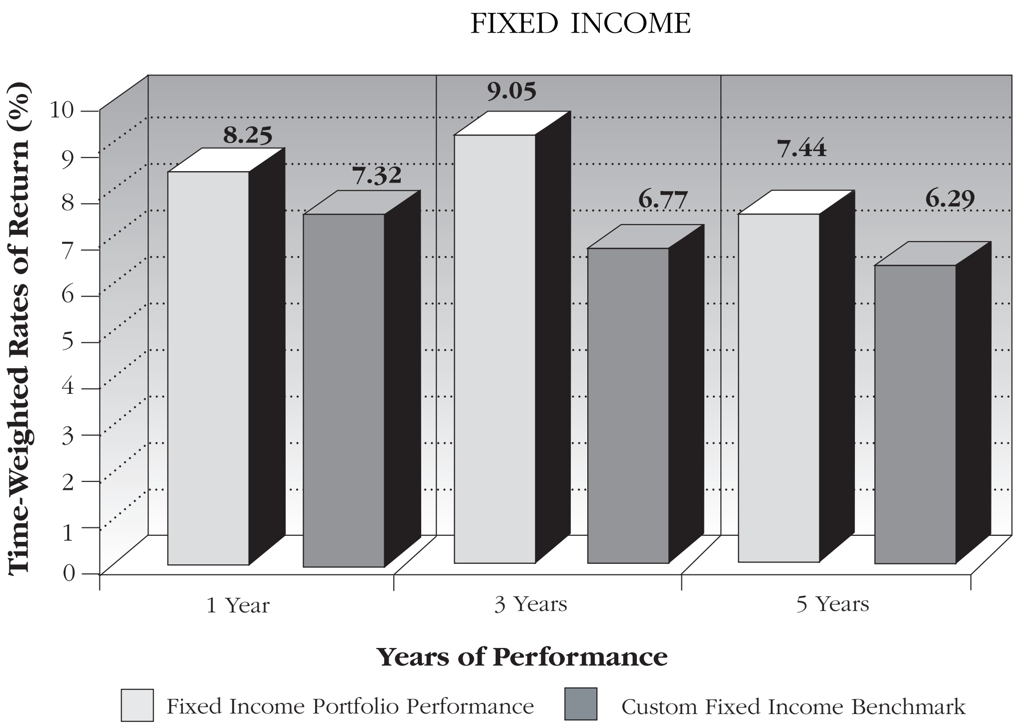
INTERNATIONAL EQUITY



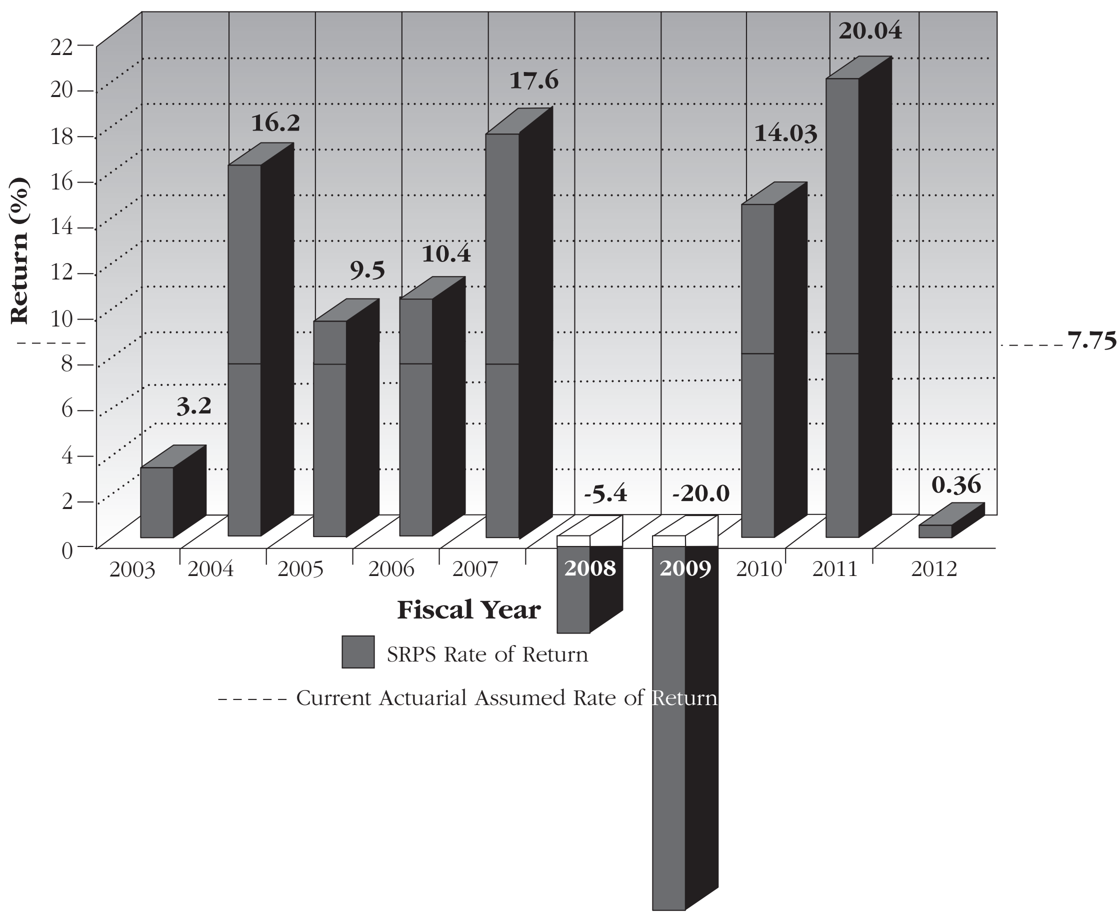
REAL ESTATE



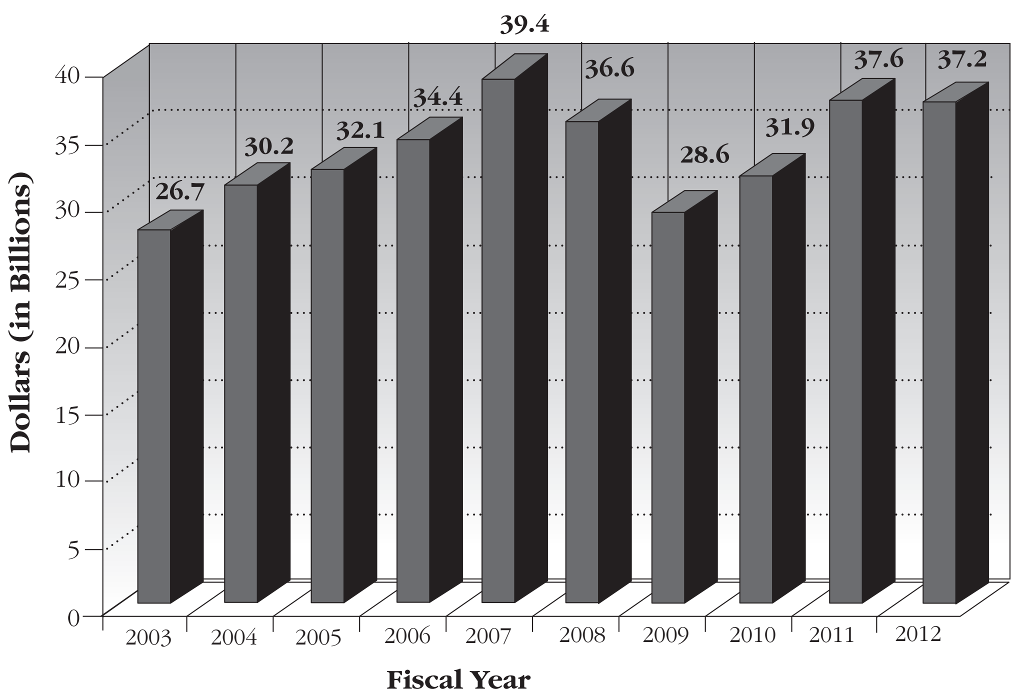
Comparative Investment Returns Ending June 30, 2012



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



Actuarial Section

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November 16, 2012

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

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, 2012.

Funding Objective

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

Assumptions

The economic actuarial assumptions (e.g., investment rate of return) used in this years' valuation have been recommended by the prior actuary and adopted by the Board of Trustees based upon review of the System's experience completed during Fiscal Year 2006. The demographic actuarial assumptions (e.g., rates of retirement) used in this years' valuation were recommend by GRS and adopted by the Board of Trustees based upon the most recent review of the System's experience completed during Fiscal Year 2011.

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, 2012 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, 2012 CAFR was derived from our June 30, 2012 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 2012 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,

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, 2012 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 determining employer contribution rates (including reinvested savings) necessary to fund the benefits provided by MSRPS, as well as establishing statutory employer contribution rates,
- Indicate trends in the financial progress of the fund,
- Provide actuarial reporting and disclosure information for the System's financial report, and
- Analyze the experience of the System over the past year.

A summary of the primary valuation results as of June 30, 2012 is presented on the following page.

SUMMARY OF VALUATION RESULTS
JUNE 30, 2012
($ IN MILLIONS)
(STATE AND MUNICIPAL)

	2012							2011	
	TCS	ECS	State Police	Judges	LEOPS	CORS^	Total	Total	% Change
A. Demographic Information									
1. Active Number Counts	103,694	85,174	1,332	294	2,410	90	192,994	195,059	-1.1%
2. Active Payroll	$ 6,081	$ 3,998	$ 78	$ 40	$ 135	$ 5	$ 10,337	$ 10,479	-1.4%
3. Retired Number Counts	63,699	64,636	2,387	365	1,396	10	132,493	127,171	4.2%
4. Annual Benefits for Retired Members	$ 1,658	$ 979	$ 106	$ 25	$ 45	$ 0	$ 2,812	$ 2,607	7.9%
5. Deferred / Inactive Number Counts	23,033	27,875	85	10	227	0	51,230	50,911	0.6%
6. Total Number Counts	190,426	177,685	3,804	669	4,033	100	376,717	373,141	1.0%
B. Assets									
1. Market Value (MV)	$ 22,502	$ 12,631	$ 1,127	$ 329	$ 578	$ 11	$ 37,179	$ 37,593	-1.1%
2. Rate of Return on MV							0.28 %	19.84 % #	
3. Funding Value (FV)	$ 22,524	$ 12,668	$ 1,135	$ 330	$ 581	$ 11	$ 37,248	$ 36,178	3.0%
4. Rate of Return on FV							4.42 %	6.09 %	
5. Ratio of FV to MV							100.2%	96.2%	
C. Actuarial Results									
1. Normal Cost as a % of Payroll	12.81%	11.26%	33.40%	36.15%	22.05%	14.68%	12.58%	11.52%	
2. Actuarial Accrued Liability (AAL)									
a. Active	$ 14,355	$ 8,436	$ 320	$ 148	$ 391	$ 10	$ 23,661	$ 24,016	-1.5%
b. Retired	19,248	11,100	1,496	271	659	6	32,779	30,522	7.4%
c. Deferred/Inactive	650	748	10	2	20	0	1,429	1,379	3.7%
d. Total	$ 34,253	$ 20,283	$ 1,827	$ 421	$ 1,070	$ 15	$ 57,869	$ 55,918	3.5%
3. Unfunded AAL (UAAL)	$ 11,729	$ 7,615	$ 692	$ 91	$ 489	$ 4	$ 20,621	$ 19,740	4.5%
4. Funded Ratio	65.8 %	62.5 %	62.1 %	78.4 %	54.3 %	73.2 %	64.4 %	64.7 %	
D. Contribution Rates*	STATE PORTION ONLY								
	FY 2014							FY 2013	
1. Pension Contributions									
a. Employer Normal Cost	5.83%	4.90%	25.40%	29.91%	15.39%		5.89%	4.79%	
b. Member Contribution Rate	6.98%	6.72%	8.00%	6.24%	7.00%		6.69%	6.73%	
c. UAAL Contribution Rate	14.54%	16.20%	41.31%	21.01%	37.08%		15.53%	14.26%	
d. Total	27.35%	27.82%	74.71%	57.16%	59.47%		28.11%	25.78%	
2. Total Actuarial Employer Rate (1.a + 1.c)	20.37%	21.10%	66.71%	50.92%	52.47%		21.42%	19.05%	
3. Total Employer Budgeted Rate									
a. Prior Year Budgeted Rate	13.29%	12.29%							
b. 20% * (2 - 3a.)	1.42%	1.76%							
c. Employer Budgeted Rate	14.71%	14.05%	66.71%	50.92%	52.47%		15.43%	13.85%	
e. Reinvested Savings Rate	3.23%	2.79%	5.14%	0.00%	5.25%		3.11%	1.95%	
f. Total Employer Budgeted Rate	17.94%	16.84%	71.85%	50.92%	57.72%		18.54%	15.80%	

** Contribution rates shown in the "Total" column are for informational purposes only and are not used for funding purposes.*
 # Actuarial calculation may differ from figures reported by State Street.
^ Includes CORS Municipal only. State CORS included in ECS.
Totals may not add due to rounding.

ACTUARY"S COMMENTS

The System's assets earned **0.28%**[1] for the year ended June 30, 2012, which is less than the 7.75% assumed rate of investment return. After applying the asset valuation method and the phase in of prior investment experience, the net result was an actuarial loss on assets. Recognized asset losses from fiscal years 2008, 2009, and 2012 offset recognized asset gains from fiscal years 2010 and 2011 in the actuarial value of assets as of June 30, 2012, under the asset smoothing method, resulting in the loss.

UAAL and Actuarial Gain/(Loss)
State and Municipal ($ in Millions)

Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2011	$ 19,740
Expected UAAL as of June 30, 2012 before changes	20,191
Changes in benefit provisions:	(2)
Changes in methods and assumptions:	333
Expected UAAL as of June 30, 2012 after changes	20,522
Actual UAAL as of June 30, 2012	20,621
Net actuarial gain/(loss)	(99)
Actuarial gain/(loss) by source:	
Actuarial investment experience	(1,195)
Actuarial accrued liability experience	1,097
Increase in UAAL	881

There was an addition of $74 million in assets during fiscal year 2012 in total for the State Police, LEOPS and Judges Systems due to the recent Milliman settlement.

In relative terms, the overall System funding ratio of actuarial value of assets to liabilities decreased from 64.70% in 2011, to **64.37%** this year. If market value of assets were the basis for the measurements, the plan would be 64.25% funded. The market value of assets exceeds the retiree liabilities by about 13% in total. This is referred to as a short condition test. It is looking at the current retiree liabilities as the benefits that will be paid the soonest since these benefits are already in pay status. Active liabilities and deferred vested liabilities do not have associated immediate cash flow requirements. Although the market value of assets exceeds the current retiree liabilities in total, this is not true for the smaller systems. For State Police and LEOPS, the market value of assets is less than the retiree liabilities.

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

	TCS	ECS	State Police	Judges	LEOPS	CORS	Total
Market Value of Assets (MVA)	$22,502	$12,631	$ 1,127	$ 329	$ 578	$ 11	$37,179
Retiree Liability	19,248	11,100	1,496	271	659	6	32,779
MVA as % of Retiree Liability	117%	114%	75%	122%	88%	198%	113%

[1] *Actuarial calculations may differ from figures reported by State Street.*

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

In 2011, the General Assembly enacted pension reforms which were effective July 1, 2011, and affect both current actives and new hires. The member contribution rate was increased for members of the Teachers Pension System and Employees Pension System from 5% to 7%, and from 4% to 6% in fiscal year 2012 and 7% in fiscal year 2013 and beyond for LEOPS. In addition, the benefit attributable to service on or after July 1, 2011, is subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.75%). There were also changes to the provisions for members hired on or after July 1, 2011. The valuation as of June 30, 2012, was the first valuation which included members covered under the Reformed Benefit Plans applicable to members hired on or after July 1, 2011.

In addition to the benefit provision changes, a portion of the savings from the pension reforms is to be reinvested in the State Systems. This amount is equal to $300 million for fiscal years 2014 and after. The allocation of reinvested savings by System is in proportion to the savings from the pension reforms as measured in the actuarial valuation as of June 30, 2011.

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

The actuarially determined rates exclude the corridor funding method and are equal to the employer normal cost plus the unfunded actuarial accrued liability contribution rate. The unfunded actuarial contribution rate is equal to the sum of amortization payments resulting from separate unfunded liability bases amortized as a level percentage of pay. The unfunded liability base as of July 1, 2000, is being amortized over a 20-year closed period (with 8 years remaining as of July 1, 2012) plus 25-year closed period amortization of the unfunded liability that emerges in each subsequent year.

The GASB ARC rate is equal to the actuarially determined contribution rate if the single equivalent amortization period for the unfunded liability is less than or equal to 30 years. If the single equivalent amortization period is more than 30 years, which is the maximum period under GASB 27, then the GASB ARC is equal to the employer normal cost plus 30-year open period amortization of the unfunded liability.

The budgeted rate for TCS is about 72% (76% if with the addition of reinvested savings) of the actuarially determined rate and the GASB ARC rate, and the budgeted rate for ECS is about 67% (70% with the addition of reinvested savings) of the actuarially determined rate and the GASB ARC rate. Although the budgeted contribution rate for State Police is equal to the actuarially determined rate, it is only about 88% of the GASB ARC (i.e., the rate which amortizes the unfunded liability over 30 years). The single equivalent amortization period for State Police is 50.8 years.

FY2014 Contribution Rates (State Portion Only)

	TCS	ECS	State Police	Judges	LEOPS	Total
Budgeted Contribution Rate [1]	14.71%	14.05%	66.71%	50.92%	52.47%	15.43%
Actuarially Determinde Rate [1]	20.37%	21.10%	66.71%	50.92%	52.47%	21.42%
Budgetd/Actuarially Determined Rate	72.21%	66.59%	100.00%	100.00%	100.00%	72.04%
Budgeted Contribution Rate with Reinvested Savings	17.94%	16.84%	71.85%	50.92%	57.72%	18.54%
GASB Annual Required Contribution	23.60%	23.89%	81.68%	50.92%	57.72%	24.59%
Budgeted with Reinvested Savings/ GASB ARC Rate	76.02%	70.49%	87.96%	100.00%	100.00%	75.39%

1. Exludes reivested savings.

The budgeted rates with reinvested savings are based on a projection of payroll. It is our understanding that the Retirement Agency will monitor contributions to ensure that the System receives the proper amount of reinvested savings during fiscal year 2014.

Beginning in fiscal year 2013, local employers will contribute a portion of the statutory normal cost contribution for the Teachers Combined System. Normal cost contribution amounts for local employers for fiscal years 2013 through 2016 are defined by the statutes. Beginning in fiscal year 2017, local employers will contribute the full normal cost contribution on behalf of their employees.

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

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

PRIOR YEAR EXPERIENCE

Assets (State and Municipal)

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

For the plan year ending June 30, 2012, the System's assets earned **0.28%**[1] on a market value basis and **4.42%** on a smoothed or actuarial basis. The System experienced an investment loss of **$2,790** million on a market value basis and a loss of **$1,195** million on an actuarial basis. A reconciliation of market value and actuarial value of assets are presented below.

(STATE AND MUNICIPAL)

Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2011 Value	$37,593	$36,178
June 30, 2011 Municipal Withdrawls		
/New Entrants	–	–
Employer Contributions	1,596	1,596
Member Contributions	703	703
Benefit Payments	(2,817)	(2,817)
Expected Investment Earnings (7.75%)	2,854	2,784
Expected Value June 30, 2012	$39,968	$38,444
INVESTMENT GAIN (LOSS)	**(2,790)**	**(1,195)**
June 30, 2012 Value	$37,179	$37,248

Figures may not add correctly due to rounding

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

Trends (State and Municipal)

One of the best ways to measure or evaluate the financial condition of a pension plan is to examine the historical trends that are evolving. Below, we present three charts which present trend information from 1993 through the end of 2012, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

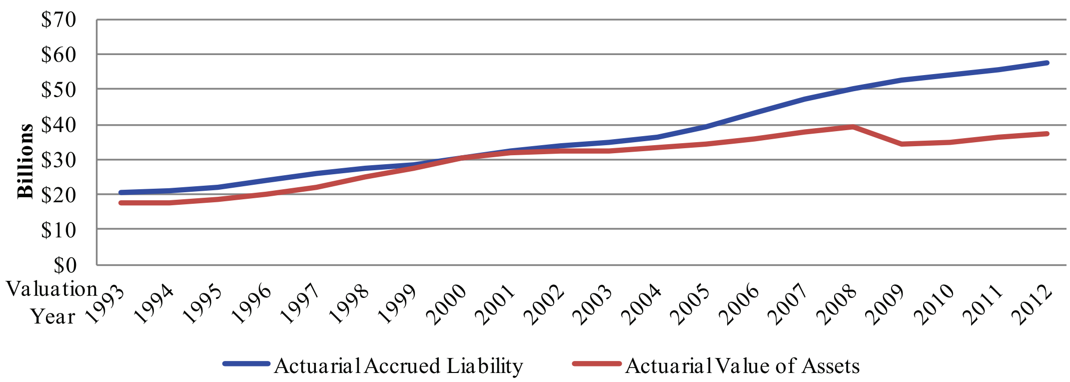


Chart B:
Benefits vs Contributions

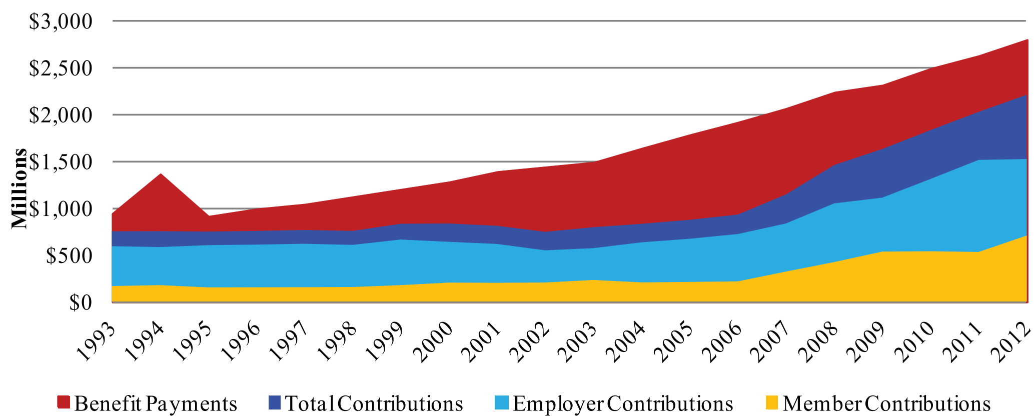
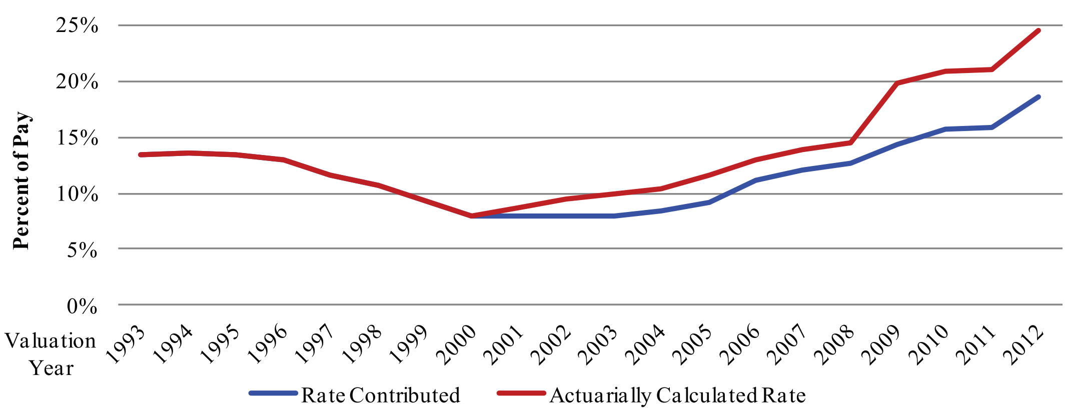


Chart C:
State Contribution Rate



Comments

Chart A displays a comparison of the actuarial value of assets and the actuarial accrued liability. As of June 30, 2012, the actuarial value of assets under the 5-year asset smoothing method is about equal to the market value of assets, compared with 96% as of June 30, 2011. However, it could take another 10 years for the asset losses from fiscal year 2008 and 2009 to be fully reflected in the contribution rates under the current corridor funding policy in the absence of significant future gains.

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

Finally, Chart C, looks at the composite actuarially determined and budgeted State contribution rates. The budgeted contribution rates by System determine the fiscal year State appropriation. It shows the impact of the 1990's decade's sustained investment gains, a continuous lowering of the rate until 2000. Effective with the 2001 valuation, the State appropriations were performed under a corridor funding method for the two largest plans. The appropriation remained essentially level for a few years before increasing with the 2004 valuation. In the absence of significant favorable investment and/or demographic experience, the contribution rates can be expected to increase to the level indicated if the corridor method had not been adopted. Without the corridor method, the State contribution in FY 2014 would be 5.99% of payroll higher than the amount to be budgeted under the corridor method. The actual contribution rate for FY 2014 is therefore 28% 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 time 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.

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, 2012:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2012);
- projected salary increases of 3.5% to 12.0% compounded annually, attributable to inflation (adopted June 30, 2012);
- post-retirement benefit increases ranging from 2.75% to 3.5% for service prior to July 1, 2011 and 1.70% to 3.5% for service after June 30, 2011 per year based on the system and provisions (adopted June 30, 2012);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 2006 through 2010 (adopted June 30, 2012)

SUMMARY OF UNFUNDED ACTUARIAL
(STATE AND

Valuation Date June 30,	Actuarial Liabilities For: Active Member Contributions	Retirees, Term Vested and Inactives	Active Members Employer Fin. Portion	Total Liabilities	Actuarial Value of Assets
2003	$ 1,973,371,055	$ 17,573,117,822	$ 15,428,111,989	$ 34,974,600,866	$ 32,631,464,884
2004	2,064,065,193	19,041,901,524	15,219,737,348	36,325,704,065	33,484,656,570
2005	2,148,065,879	20,975,329,441	16,010,054,447	39,133,449,767	34,519,500,395
2006	2,217,897,868	22,086,452,920	18,939,141,669	43,243,492,457	35,795,025,134
2007	2,489,643,667	25,790,846,645	18,863,863,688	47,144,354,000	37,886,935,596
2008	2,787,163,875	27,224,603,428	20,232,279,697	50,244,047,000	39,504,284,202
2009	2,959,415,829	28,914,824,184	20,854,931,317	52,729,171,330	34,284,568,617
2010	3,389,265,622	29,900,015,751	20,795,799,745	54,085,081,118	34,688,345,696
2011	3,732,934,034	31,901,090,890	20,283,517,888	55,917,542,812	36,177,655,993
2012	4,274,269,025	34,208,190,190	19,386,686,257	57,869,145,472	37,248,400,780

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
2003	6,216	$ 123,497,444	2,780	$ 38,449,020	90,803	$ 1,478,091,946	6.11%	16,278
2004	6,822	152,664,871	2,745	38,223,588	94,880	1,592,533,229	7.74%	16,785
2005	8,179	179,497,068	2,863	41,696,122	100,196	1,730,334,175	8.65%	17,269
2006	6,822	164,369,688	3,247	34,799,179	103,831	1,859,904,684	7.49%	17.913
2007	5,967	177,884,598	1,443	17,852,392	108,355	2,019,936,890	8.60%	18,642
2008	7,310	205,072,079	3,243	48,851,264	112,422	2,176,157,700	7.73%	19,357
2009	6,700	218,347,411	3,115	56,523,577	116,007	2,337,981,534	7.44%	20,154
2010	6,908	147,419,991	2,668	50,510,952	120,247	2,434,890,574	4.14%	20,249
2011	8,639	226,843,465	1,715	55,062,716	127,171	2,606,671,323	7.05%	20,497
2012	7,936	264,562,994	2,614	58,769,603	132,493	2,812,464,714	7.89%	21,227

Notes: Members added to rolls were estimated based on a retirement date/change date after June 30, 2011.
Annual allowances added to rolls include COLA increases for continuing members.
COLA increases were estimated based on the benefits for the continuing members.

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**
100.00%	100.00%	84.81%	93.30%	$ 2,343,135,982	$ 8,134,419,291	29%
100.00%	100.00%	81.33%	92.18%	2,841,047,495	8,069,480,852	35%
100.00%	100.00%	71.18%	88.21%	4,613,949,372	8,603,760,761	54%
100.00%	100.00%	60.67%	82.78%	7,448,467,323	9,287,575,596	80%
100.00%	100.00%	50.93%	80.36%	9,257,418,404	9,971,012,066	93%
100.00%	100.00%	46.92%	78.62%	10,739,762,798	10,542,806,018	102%
100.00%	100.00%	11.56%	65.02%	18,444,602,713	10,714,167,517	172%
100.00%	100.00%	6.73%	64.14%	19,396,735,421	10,657,943,561	182%
100.00%	100.00%	2.68%	64.70%	19,739,886,819	10,478,799,565	188%
100.00%	96.39%	0.00%	64.37%	20,620,744,692	10,336,536,835	199%

MARYLAND STATE RETIREMENT
ACCOUNTING STATEMENT
AS OF
(STATE AND

	Teacher's Combined System	Employee's Combined System
1. Actuarial Accrued Liability		
a. Employee Contributions	$2,543,352,974	$ 1,578,939,263
b. Retirees, Term Vesteds & Inactives	19,897,298,027	11,847,245,233
c. Active Members	11,812,063,947	6,856,843,537
2. Total Actuarial Accrued Liability (1(a)+1(b)+1(c))	34,252,714,948	20,283,028,033
3. Actuarial Value of Assets	22,523,977,712	12,667,591,862
4. Unfunded Actuarial Accrued Liability (2-3)	$ 11,728,737,236	$ 7,615,436,171
5. Funded Ratio	65.76%	62.45%
6. Annual Payroll	$ 6,080,603,312	$ 3,998,474,876
7. UAAL as % of Payroll	193%	190%
8. Annual Required Contributions (ARC) STATE ONLY	23.60%	23.89%
9. Illustrated ARC contirbution Dollars STATE ONLY for FY 2014	$ 1,485,248,165	$ 754,955,547
10. Equivalent Single Amortization Period in Years - STATE ONLY for FY2014@	19.024	21.142

* Contribution rates shown in the "Total" column are for informational purposes only and are not used for funding purposes.
@ Reinvested savings are not reflected in the equivalent single amortization period.

AND PENSION SYSTEM
INFORMATION
JUNE 30, 2012
MUNICIPAL)

State Police	Judges	LEOPS	CORS	Total MSRPS*
$ 70,670,205	$ 26,078,614	$ 53,902,184	$ 1,325,787	$ 4,274,269,025
1,506,552,330	272,833,397	678,624,579	5,636,624	34,208,190,190
249,323,365	122,374,036	337,560,658	8,520,712	19,386,686,257
1,826,545,900	421,286,047	1,070,087,421	15,483,123	57,869,145,472
1,134,510,589	330,153,704	580,826,355	11,340,558	37,248,400,780
$ 692,035,311	$ 91,132,343	$ 489,261,066	$ 4,142,565	$ 20,620,744,692
62.11%	78.37%	54.28%	73.24%	64.37%
$ 77,689,914	$ 39,955,368	$ 135,185,336	$ 4,628,029	$10,336,536,835
891%	228%	362%	90%	199%
81.68%	50.92%	57.72%		24.59%
$66,817,981	$ 21,422,693	$ 50,852,758		$2,379,297,144
30.000	13.865	15.532		20.064

REPORT OF THE ACTUARY ON THE VALUATION OF THE
TEACHERS' COMBINED SYSTEM OF THE STATE OF MARYLAND
Summary of Principal Plan Results

	Actuarial Valuation Performed		
	June 30, 2012 (for FY2014)	**June 30, 2011 (for FY2013)**	**% Change**
A. Demographic Information			
Active Number Count	103,694	105,528	-1.7%
Retired Member and Beneficiary Count	63,699	60,565	5.2%
Vested Former Members Count	23,033	22,617	1.8%
Total Number Count	190,426	188,710	0.9%
Active Payroll	$ 6,080,603,312	$ 6,196,976,452	-1.9%
Annual Benifits for Retired Members	$ 1,657,508,543	$ 1,524,849,860	8.7%
B. Actuarial Results			
Actuarial Accrued Liability	$ 34,252,714,948	$32,985,144,820	3.8%
Assets Value of Assets	22,523,977,712	21,868,875,015	3.0%
Unfunded Actuarial Accrued Liability (UAAL)	$ 11,728,737,236	$11,116,269,805	5.5%
Funded Ratio	65.8%	66.3%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	5.83%	4.62%	
UAAL Amortization Rate	14.54%	13.14%	
Total Actuarial Employer Contribution Rate	20.37%	17.76%	
Total Actuarial Employer Contribution Rate (Before Reforms)	N/A	21.04%	
D. Corridor Contribution Rates (State Portion Only)			
Prior Year Corridor Rate	13.29%	15.45%	
20% of difference between Preliminary Funding Rate (Before Reforms) and Prior year Corridor Rate	1.42%	1.12%	
Change Due to Pension Reforms	N/A	-3.28%	
Employer Corridor Contribution Rate	14.71%	13.29%	
Estimated Employer Rate after Reinvestment of Savings	17.94%	15.30%	

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

Summary of Principal Plan Results

	Actuarial Valuation Performed		
	June 30, 2012 (for FY2014)	**June 30, 2011 (for FY2013)**	**% Change**
A. Demographic Information			
Active Number Count	85,174	85,453	-0.3%
Retired Members and Beneficiary Count	64,636	62,569	3.3%
Vested Former Member Count	27,875	27,978	-0.4%
Total Number Count	177,685	176,000	1.0%
Active Payroll	$ 3,998,474,876	$ 4,027,809,638	-0.7%
Annual Benefits for Retired Members	$ 978,515,407	$ 913,836,657	7.1%
B. Actuarial Results			
Actuarial Accrued Liability	$ 20,283,028,033	$19,722,263,828	2.8%
Actuarial Value of Assets	12,667,591,862	12,387,810,395	2.3%
Unfunded Actuarial Accrued Liability (UAAL)	$ 7,615,436,171	$ 7,334,453,433	3.8%
Funding Ratio	62.5%	62.8%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	4.90%	4.17%	
UAAL Amortization Rate	16.20%	15.15%	
Total Actuarial Employer Contribution Rate	21.10%	19.32%	
Total Actuarial Employer Contribution Rate(Before Reforms)	N/A	22.19%	
D. Corridor Contribution Rates (State Portion Only)			
Prior Year Corridor Rate	12.29%	13.40%	
20% of difference between Primary Funding Rate (Before Reforms) and Prior year Corridor Rate	1.76%	1.76%	
Change Due to Pension Reforms	N/A	-2.87%	
Employer Corridor Contribution Rate	14.05%	12.29%	
Estimated Employer Rate after Reinvesment of Savings	16.84%	14.05%	

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

Summary of Principal Plan Results

	June 30, 2012 (for FY2014)	June 30, 2011 (for FY2013)	% Change
A. Demographic Information			
Active Member Count	1,332	1,295	2.9%
Retired Member and Beneficiaries Count	2,387	2,371	0.7%
Vested Former Member Count	85	91	-6.6%
Total Number Count	3,804	3,757	1.3%
Active Payroll	$ 77,689,914	$ 75,551,283	2.8%
Annual Benifits for Retired Members	$ 105,974,605	$ 102,466,376	3.4%
B. Actuarial Results			
Actuarial Accrued Liability	$1,826,545,900	$ 1,759,675,896	3.8%
Actuarial Value of Assets	1,134,510,589	1,090,382,601	4.0%
Unfunded Actuarial Accrued Liability (UAAL)	$ 692,035,311	$ 669,293,295	3.4%
Funding Ratio	62.1%	62.0%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	25.40%	20.44%	
UAAL Amortization Rate	41.31%	40.77%	
Total Actuarial Employer Contribution Rate	66.71%	61.21%	
Estimated Employer Rate after Reinvesment of Savings	71.85%	64.57%	

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

Summary of Principal Plan Results

	June 30, 2012 (for FY2014)	June 30, 2011 (for FY2013)	% Change
A. Demographic Information			
Active Number Count	294	286	2.8%
Retired Members and Beneficiary Count	365	358	2.0%
Vested Former Members Count	10	11	-9.1%
Total Number Count	669	655	2.1%
Active Payroll	$ 39,955,368	$ 38,810,261	3.0%
Annual Benifits for Retired Members	$ 25,150,702	$ 24,597,570	2.2%
B. Actuarial Results			
Actuarial Accrued Liability	$ 421,286,047	$ 433,239,577	-2.8%
Actuarial Value of Assets	330,153,704	293,800,575	12.4%
Unfunded Actuarial Accrued Liability (UAAL)	$ 91,132,343	$ 139,439,002	-34.6%
Funding Ratio	78.4%	67.8%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	29.91%	32.31%	
UAAL Amortization Rate	21.01%	28.87%	
Total Actuarial Employer Contribution Rate	50.92%	61.18%	

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

Summary of Principal Plan Results

	June 30, 2012 (for FY2014)	June 30, 2011 (for FY2013)	% Change
A. Demographic Information			
Active Number Count	2,410	2,411	0.0%
Retired Members and Beneficiary Count	1,396	1,302	7.2%
Vested Former Member Count	227	214	6.1%
Total Number Count	4,033	3,927	2.7%
Active Payroll	$ 135,185,336	$ 135,176,780	0.0%
Annual Benefits for Retired Members	$ 44,945,152	$ 40,920,859	9.8%
B. Actuarial Results			
Actuarial Accrued Liability	$1,070,087,421	$1,002,707,652	6.7%
Actuarial Value of Assets	580,826,355	526,807,244	10.3%
Unfunded Actuarial Accrued Liability (UAAL)	$ 489,261,066	$ 475,900,408	2.8%
Funding Ratio	54.3%	52.5%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	15.39%	12.35%	
UAAL Amortization Rate	37.08%	34.46%	
Total Actuarial Employer Contribution Rate	52.47%	46.81%	
Estimated Employer Rate after Reinvestment of Savings	57.72%	50.14%	

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

Summary of Principal Plan Results

	June 30, 2012 (for FY2014)	June 30, 2011 (for FY2013)	% Change
A. Demographic Information			
Active Member Count	90	86	4.7%
Retired Member and Beneficiary Count	10	6	66.7%
Vested Former Members Count	0	0	
Total Number Count	100	92	8.7%
Active Payroll	$ 4,628,029	$ 4,475,151	3.4%
Annual Benefits for Retired Members	$ 370,305	$ 252,141	46.9%
B. Actuarial Results			
Actuarial Accrued Liability	$ 15,483,123	$14,511,039	6.7%
Actuarial Value of Assets	$ 11,340,558	9,980,163	13.6%
Unfunded Actuarial Accrued Liability (UAAL)	$ 4,142,565	$ 4,530,876	-8.6%
Funding Ratio	73.2%	68.8%	

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
2003	8,199	$ 555,522,563	$ 67,755	3.96 %
2004	7,197	502,487,678	69,819	3.05
2005	6,255	464,693,323	74,291	6.41
2006	5,449	413,849,937	75,950	2.23
2007	4,788	383,619,438	80,121	5.49
2008	4,125	352,954,397	85,565	6.79
2009	3,554	306,096,545	86,127	0.66
2010	3,111	269,775,400	86,717	0.68
2011	2,589	225,118,122	86,952	0.27
2012	2,040	178,541,246	87,520	-0.65

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2003	89,099	$ 3,966,679,839	$ 44,520	4.25 %
2004	88,765	4,113,119,415	46,337	4.08
2005	91,535	4,590,698,122	50,152	8.23
2006	94,869	4,855,335,579	51,179	2.04
2007	98,789	5,326,145,893	53,914	5.34
2008	101,836	5,764,636,027	56,607	4.99
2009	102,553	5,888,637,495	57,420	1.44
2010	103,162	5,984,872,410	58,014	1.03
2011	102,939	5,971,858,330	58,014	0.00
2012	101,654	5,902,062,066	58,060	0.08

Employees' Retirement

(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2003	11,347	$ 462,088,968	$ 40,723	1.47 %
2004	10,489	438,455,277	41,801	2.65
2005	9,869	423,715,070	42,934	2.71
2006	10,121	467,808,791	46,222	7.66
2007	9,980	472,525,475	47,347	2.44
2008	9,740	472,800,066	48,542	2.52
2009	9,962	483,871,203	48,572	0.06
2010	9,665	463,375,639	47,944	-1.29
2011	9,189	432,469,190	47,064	-1.84
2012	9,113	421,320,077	46,233	-1.77

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
2003	77,939	$ 2,961,965,306	$ 38,004	3.47 %
2004	75,955	2,964,093,317	39,024	2.68
2005	76,787	3,187,380,273	41,509	6.37
2006	76,979	3,325,316,541	43,198	4.07
2007	78,719	3,543,695,246	45,017	4.21
2008	79,462	3,692,212,569	46,465	3.22
2009	79,418	3,765,664,905	47,416	2.05
2010	77,660	3,674,098,155	47,310	-0.22
2011	76,264	3,595,340,448	47,143	-0.35
2012	76,061	3,577,154,799	47,030	-0.24

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2003	287	$ 33,168,859	$ 115,571	2.05 %
2004	283	33,149,832	117,137	1.36
2005	282	33,897,984	120,206	2.62
2006	296	35,939,104	121,416	1.01
2007	297	37,638,491	126,729	4.38
2008	286	37,943,327	132,669	4.69
2009	297	40,266,330	135,577	2.19
2010	294	39,960,883	135,921	0.25
2011	286	38,810,261	135,700	-0.16
2012	294	39,955,368	135,903	0.15

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2003	1,542	$ 80,838,519	$ 52,424	0.19 %
2004	1,445	77,531,613	53,655	2.35
2005	1,439	77,610,367	53,934	0.52
2006	1,441	80,648,855	55,967	3.77
2007	1,416	83,190,937	58,751	4.97
2008	1,426	86,464,247	60,634	3.21
2009	1,408	85,585,708	60,785	0.25
2010	1,354	81,705,369	59,946	0.71
2011	1,295	75,551,283	58,341	-3.32
2012	1,332	77,689,914	58,326	-0.03

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
2003	1,481	$ 69,469,540	$ 46,907	0.34 %
2004	1,675	78,628,672	46,942	0.07
2005	1,826	88,925,957	48,700	3.75
2006	2,063	106,668,684	51,706	6.17
2007	2,217	122,015,164	55,036	6.44
2008	2,327	133,445,391	57,347	4.20
2009	2,445	140,071,292	57,289	-0.10
2010	2,474	140,199,243	56,669	-1.08
2011	2,411	135,176,780	56,067	-1.06
2012	2,410	135,185,336	56,094	0.05

Correctional Officers' Retirement System
(MUNICIPAL)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2009	68	$ 4,047,633	$ 59,524	NA
2010	66	3,956,462	59,946	0.71 %
2011	86	4,475,151	52,037	-13.19
2012	90	4,628,029	51,423	-1.18

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 97 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 98 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)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Employer contributions	$ 606,900	$ 632,052	$ 670,554	$ 720,876	$ 833,782	$ 1,047,963	$ 1,109,563	$1,308,921	$1,512,472	1,595,761
Members contributions	207,584	204,158	208,997	215,077	319,274	420,461	532,100	535,581	528.028	703,256
Net Investment income	756,747	4,202,632	2,766,389	3,225,649	5,924,070	(2,139,662)	(7,355,906)	4,016,359	6,273,337	104,084
Total Additions	$1,571,231	5,038,842	3,645,940	4,161,602	7,077,126	(671,238)	(5,714,243)	5,860,861	8,313,837	2,403,100
Deductions										
Benefit payments	1,474,257	1,570,622	1,697,397	1,829,468	1,965,872	2,120,463	2,279,170	2,445,540	2,580,392	2,755,106
Refunds	16,310	11,942	19,162	16,455	16,021	16,223	22,325	33,531	33,369	33,819
Administrative expenses	21,352	17,376	22,386	18,579	21,271	23,147	27,499	28,627	30,961	28,201
Total Deductions	1,511,919	1,599,940	1,738,945	1,864,502	2,003,164	2,159,833	2,328,994	2,507,698	2,644,722	2,817,126
Changes in net	$ 59,312	$3,438,902	$1,906,995	$2,297,100	$5,073,962	$(2,831,071)	$(8,043,237)	$ 3,353,162	5,669,115	(414,026)

SCHEDULE OF BENEFIT EXPENSE BY TYPE

(Expressed In Thousands)

Fiscal Year	Age & Service Benefits		Death In Service Pre-Retirement Benefits	Disability Benefits			Death After Retirement Post-Retirement Benefits	Total
				Retirees				
	Retirees	Survivors		Accidental	Ordinary	Survivors		
2003	$ 1,197,037	$ 78,064	$ 7,443	$ 36,113	$ 122,967	$ 18,355	$ 14,278	$ 1,474,257
2004	1,275,254	82,862	8,515	39,777	131,115	19,798	13,301	1,570,622
2005	1,377,977	88,895	8,369	43,933	142,872	21,318	14,033	1,697,397
2006	1,479,107	101,395	8,655	48,351	152,900	24,036	15,124	1,829,468
2007	1,597,722	102,972	10,133	52,505	166,561	24,695	11,284	1,965,872
2008	1,714,059	118,215	8,908	59,908	176,802	28,052	14,519	2,120,463
2009	1,907,483	94,654	18,133	95,933	148,098	14,845	–	2,279,146
2010	2,045,795	100,953	18,857	102,032	161,836	16,068	–	2,445,540
2011	2,164,368	104,884	18,758	105,493	170,267	16,623	_	2,580,392
2012	2,318,614	109,674	19,232	10,996	179,914	17,677	_	2,755,106

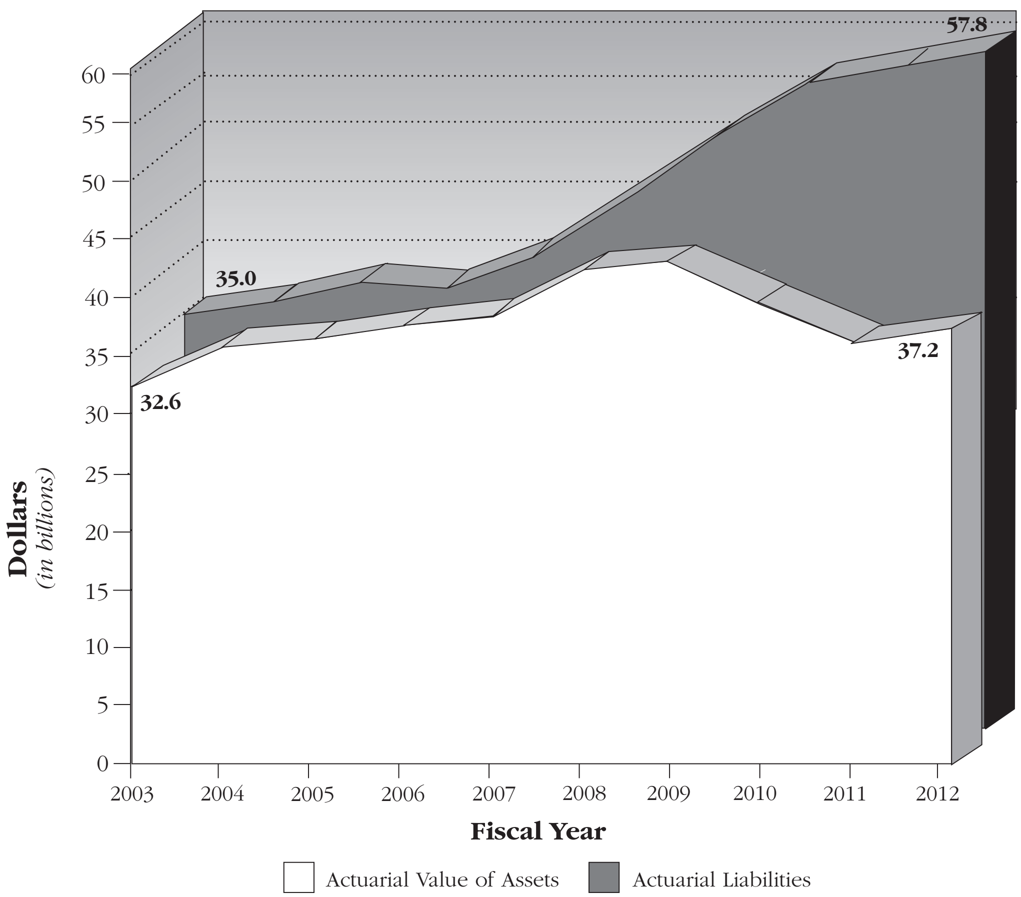
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

Average Benefit Payments – *Last Ten Years*

Years Credited Service

	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/2002 to 6/30/2003							
Average monthly benefit	$ 282	$ 463	$ 750	$ 1,087	$ 1,605	$ 2,527	$ 2,287
Monthly final average salary	$ 2,062	$ 2,521	$ 3,195	$ 3,597	$ 3,859	$ 4,774	$ 4,200
Number of retired members	242	595	671	731	884	1,453	858
Period 7/1/2003 to 6/30/2004							
Average monthly benefit	$ 295	$ 452	$ 767	$ 1,066	$ 1,616	$ 2,520	$ 2,433
Monthly final average salary	$ 2,416	$ 2,634	$ 3,287	$ 3,640	$ 4,000	$ 4,949	$ 4,585
Number of retired members	273	669	669	795	1,009	1,530	1,172
Period 7/1/2004 to 6/30/2005							
Average monthly benefit	$ 349	$ 509	$ 742	$ 1,105	$ 1,591	$ 2,510	$ 2,361
Monthly final average salary	$ 2,461	$ 2,818	$ 3,392	$ 3,882	$ 4,136	$ 5,071	$ 4,615
Number of retired members	254	710	689	878	986	1,552	1,368
Period 7/1/2005 to 6/30/2006							
Average monthly benefit	$ 303	$ 525	$ 819	$ 1,360	$ 1,555	$ 2,426	$ 2,439
Monthly final average salary	$ 2,409	$ 2,852	$ 3,425	$ 4,031	$ 4,183	$ 5,147	$ 4,782
Number of retired members	261	713	702	850	872	1,454	1,319
Period 7/1/2006 to 6/30/2007							
Average monthly benefit	$ 457	$ 637	$ 868	$ 1,253	$ 1,696	$ 2,499	$ 2,256
Monthly final average salary	$ 3,202	$ 3,425	$ 3,733	$ 4,249	$ 4,524	$ 5,435	$ 5,052
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2007 to 6/30/2008							
Average monthly benefit	$ 419	$ 603	$ 993	$ 1,367	$ 1,732	$ 2,594	$ 2,727
Monthly final average salary	$ 2,811	$ 3,172	$ 3,825	$ 4,510	$ 4,617	$ 5,478	$ 5,224
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2008 to 6/30/2009							
Average monthly benefit	$ 534	$ 577	$ 868	$ 1,232	$ 1,657	$ 1,973	$ 2,925
Monthly final average salary	$ 2,604	$ 3,273	$ 3,638	$ 4,222	$ 4,781	$ 4,924	$ 5,679
Number of retired members	191	751	625	757	872	678	2,171
Period 7/1/2009 to 6/30/2010							
Average monthly benefit	$ 505	$ 542	$ 838	$ 1,246	$ 1,670	$ 1,971	$ 2,933
Monthly final average salary	$ 2,902	$ 3,425	$ 3,636	$ 4,392	$ 4,814	$ 5,097	$ 5,811
Number of retired members	271	834	662	690	873	698	2,266
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	$ 435	$ 541	$ 851	$ 1,211	$ 1,800	$ 2,161	$ 3,100
Monthly final average salary	$ 2,884	$ 3,373	$ 3,734	$ 4,309	$ 4,984	$ 5,395	$ 5,970
Number of retired members	306	951	901	950	1,164	900	2,856
Period 7/1/2011 to 6/30/2012							
Average monthly benefit	$ 351	$ 437	$ 806	$ 1,296	$ 1,745	$ 2,175	$ 3,358
Monthly final average salary	$ 2,878	$ 3,483	$ 3,788	$ 4,645	$ 5,128	$ 5,520	$ 6,310
Number of retired members	254	931	844	817	989	837	2,662

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
2003	8.01%	9.35%	4.73%	43.92%	5.78%	36.10%	1.95%	29.59%	6.95%	1.95%	– %
2004	8.06	9.35	4.73	43.74	7.58	35.13	2.87	30.21	7.59	2.59	–
2005	7.97	9.35	4.73	36.72	–	37.73	5.28	32.10	9.87	4.87	–
2006	8.46	9.35	5.76	41.12	8.22	38.47	5.36	32.67	9.80	4.80	–
2007	9.18	9.71	6.83	42.43	13.83	40.60	N/A	33.18	10.68	5.68	–
2008	11.10	11.60	8.86	44.12	15.44	41.74	N/A	36.80	10.27	5.27	–
2009	11.14	11.70	8.73	43.61	20.53	36.99	N/A	30.53	8.87	3.87	-
2010	12.62	13.15	9.93	49.89	30.79	38.63	N/A	30.03	9.05	4.05	8.41
2011	14.33	14.34	11.69	59.07	57.03	47.67	N/A	32.74	12.30	7.30	9.69
* 2012	15.67	15.45	13.40	60.37	61.01	49.26	N/A	33.09	12.41	7.41	8.87

*Rates for Municipal Systems only include basic employee cost rate.

Does not include reduction of $120 Million in contributions for State Systems due to 2011 General Assembly reforms.

SCHEDULE OF RETIRED MEMBERS BY TYPE
as of June 30, 2012

Amount of Monthly Benefit	Number of Retirees	Type of Retirement						
		NR(4)	ER(3)	SP	SPD	ADR	ODR	SPDR
1 - 300	16,125	13,285	1,158	890	20	14	495	263
301 - 600	15,069	9,711	2,479	1,015	64	37	1,354	409
601 - 900	13,182	7,682	2,218	961	101	75	1,841	304
901 - 1,200	11,793	7,150	1,877	793	91	153	1,517	212
1,201 - 1,500	11,227	7,127	1,497	721	87	302	1,333	160
1,501 - 1,800	9,920	6,492	1,237	513	73	370	1,139	96
1,801 - 2,100	8,699	5,822	1,128	422	61	408	799	59
2,101 - 2,400	8,066	5,621	947	325	72	376	683	42
2,401 - 2,700	7,096	5,133	772	251	68	375	476	21
2,701 - 3,000	6,205	4,671	598	198	75	286	361	16
Over 3000	25,111	21,403	1,081	649	134	1,096	709	39
	132,493	94,097	14,994	6,738	846	3,492	10,707	1,621

Type of Retirement:

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

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
MAX(3)	**Opt. 1(1)**	**Opt. 2**	**Opt. 3(2)**	**Opt. 4(1)**	**Opt. 5**	**Opt. 6**	**Opt. AO**
7,910	3,585	1,832	917	862	567	439	13
6,394	2,873	1,768	1,535	1,232	498	756	13
5,207	2,119	1,570	1,554	1,461	400	867	7
4,417	1,677	1,517	1,472	1,447	407	850	6
3,774	1,588	1,721	1,434	1,374	542	788	6
3,222	1,398	1,556	1,271	1,278	460	729	6
2,822	1,187	1,395	1,118	1,145	365	663	4
2,634	1,106	1,241	1,058	1,073	306	645	3
2,531	871	1,058	883	1,014	241	492	6
2,227	726	953	744	881	235	435	4
10,391	2,359	3,029	3,262	3,940	587	1,508	32
51,529	19,490	17,640	15,250	15,707	4,608	8,172	100

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.

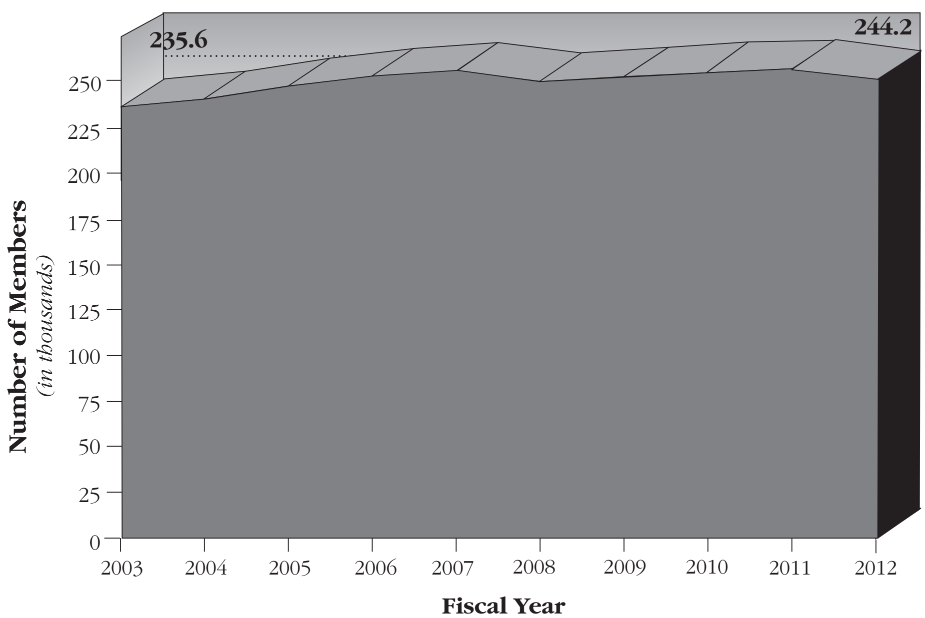
Opt. 7 – Special option calculation performed by actuary.

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

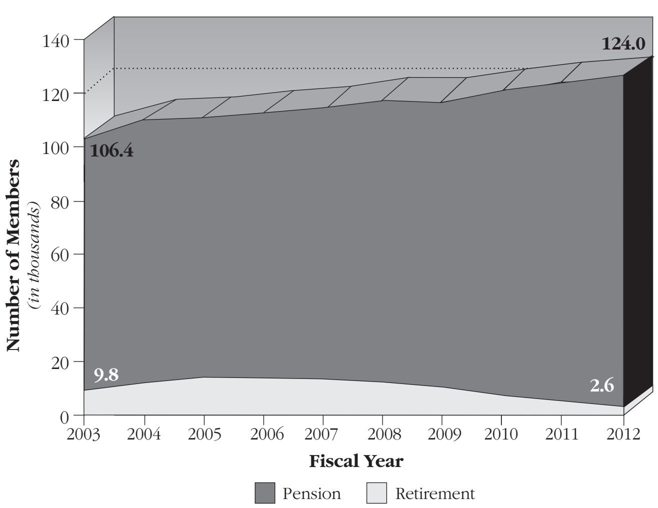
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Correctional Officers' Retirement
2003	235,594	9,776	106,383	12,696	103,151	300	1,583	1,543	–
2004	232,772	8,675	107,092	11,800	101,581	297	1,498	1,756	–
2005	235,714	7,606	110,327	11,160	102,845	297	1,486	1,930	–
2006	240,583	6,678	114,693	11,398	103,784	310	1,499	2,178	–
2007	248,289	5,963	120,333	11,240	106,566	310	1,470	2,344	–
2008	251,050	5,217	123,562	10,906	107,021	294	1,487	2,501	–
2009	251,571	4,550	124,552	11,027	106,961	365	1,414	2,634	68
2010	249,561	4,012	125,278	10,664	105,138	300	1,431	2,672	66
2011	245,970	3,339	124,806	10,139	103,292	297	1,386	2,625	86
2012	244,224	2,663	124,064	10,011	103,038	304	1,417	2,637	90

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

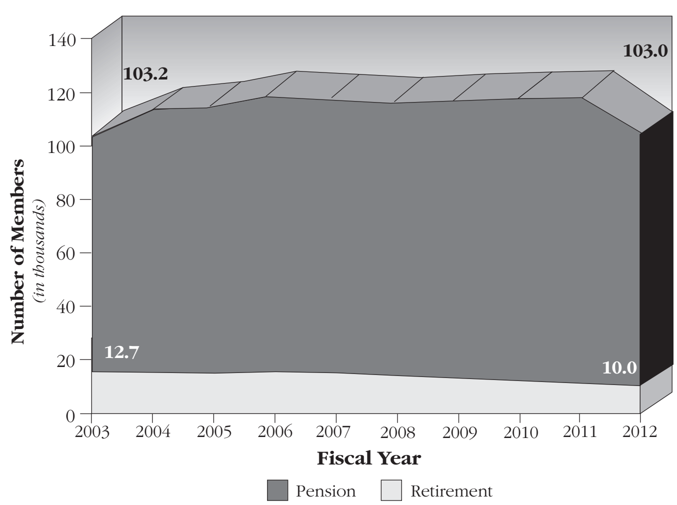
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

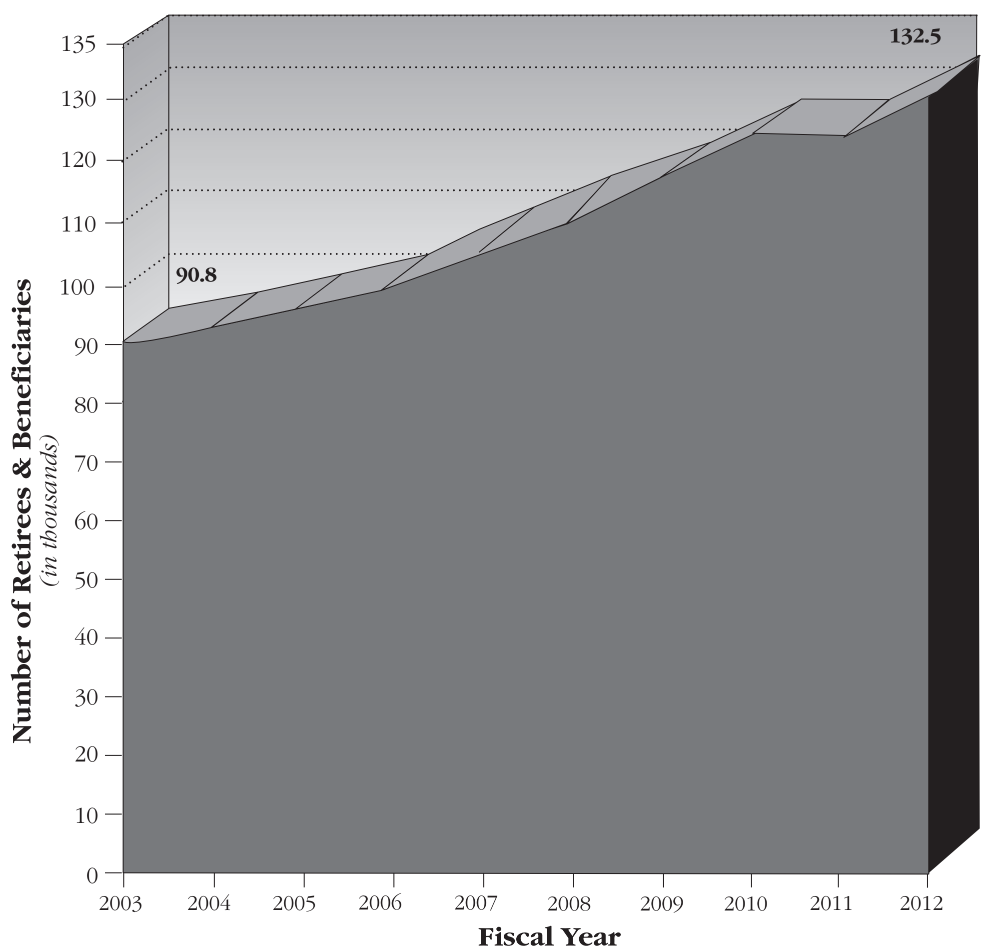


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Correctional Officers' Retirement System
2003	90,803	30,305	13,370	24,662	19,929	306	1,695	503	
2004	94,880	30,598	15,093	24,559	21,913	309	1,790	581	
2005	100,196	30,921	17,170	24,633	24,525	316	1,909	708	
2006	103.831	31,138	19,144	24,271	26,216	330	1,937	782	
2007	108,355	31,023	21,016	24,408	28,631	335	2,063	863	
2008	112,422	30,955	23,030	24,197	30,723	342	2,149	958	
2009	116,007	30,598	25,158	23,778	32,832	348	2,226	1,067	
2010	120,247	30,270	27,269	23,475	35,418	351	2,282	1,182	
2011	127,171	30,012	30,553	23,230	39,339	358	2,371	1,302	6
2012	132,493	29,705	33,994	22,796	41,840	365	2,387	1,396	10

* 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)

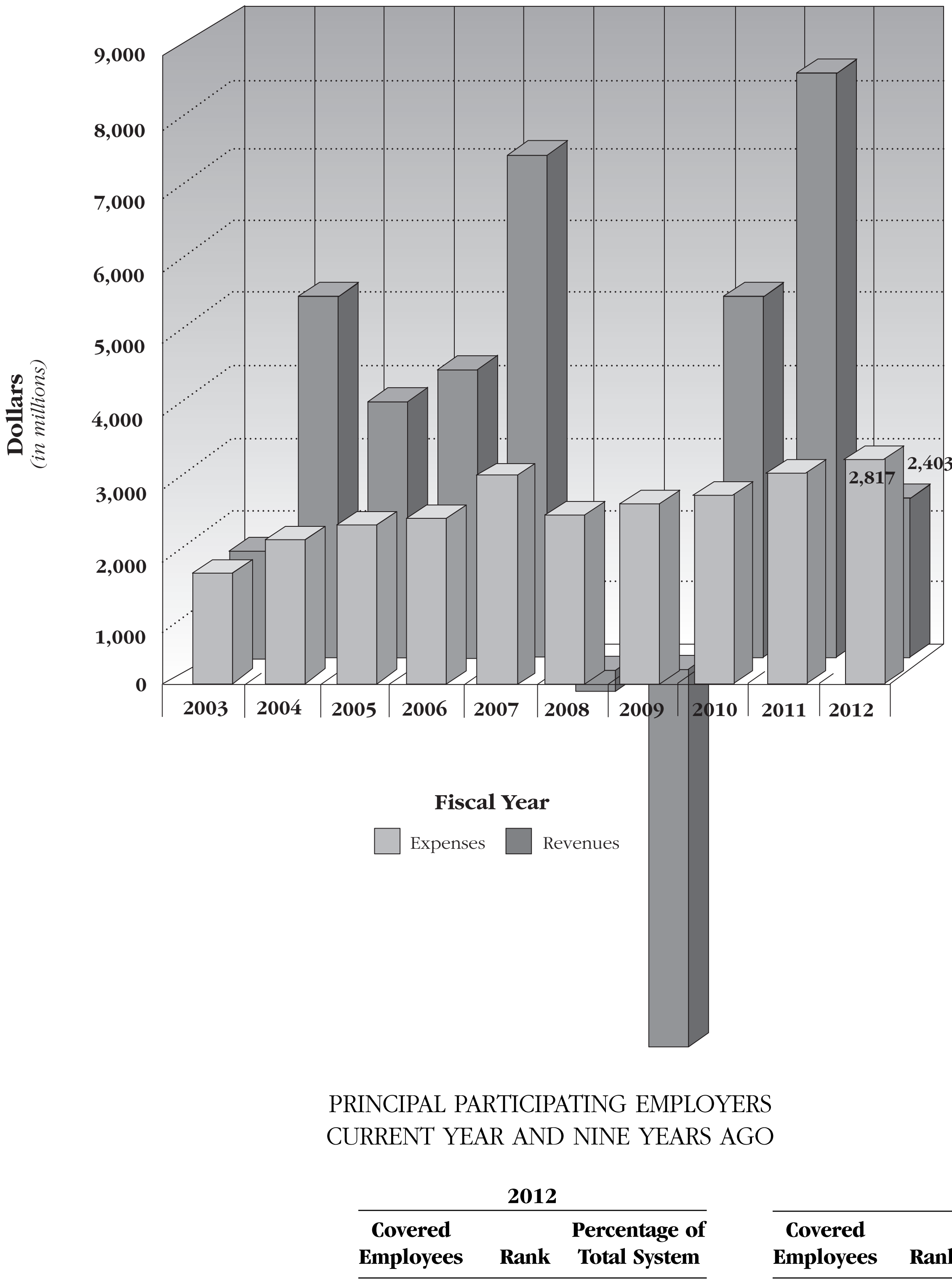
REVENUES

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
2003	$ 207,584	$ 606,900	$ 8,134,419	7.46 %	$ 756,747	$ 1,571,231
2004	204,158	632,052	8,069,481	7.83	4,202,632	5,038,842
2005	208,997	670,554	8,603,761	7.79	2,766,389	3,645,940
2006	215,077	720,876	9,089,951	7.93	3,225,649	4,161,602
2007	319,274	833,782	9,971,012	8.36	5,924,070	7,077,126
2008	420,461	1,047,962	10,542,806	9.94	(2,139,661)	(671,238)
2009	532,100	1,109,563	10,714,167	10.36	(7,355,906)	(5,714,243)
2010	535,581	1,308,921	10,657,944	12.28	4,016,359	5,860,861
2011	528,028	1,512,472	10,478,800	14.43	6,273,337	8,313,837
2012	703,256	1,595,761	10,336,536	15.44	104,084	2,403,100

EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
2003	$ 1,474,257	$ 21,352	$ 16,310	$ 1,511,919
2004	1,570,622	17,376	11,942	1,599,940
2005	1,697,397	22,386	19,162	1,738,945
2006	1,829,468	18,579	16,455	1,864,502
2007	1,965,872	21,271	16,021	2,003,164
2008	2,120,463	23,147	16,223	2,159,833
2009	2,279,170	27,499	22,325	2,328,994
2010	2,445,540	28,627	33,531	2,507,698
2011	2,580,392	30,961	33,369	2,644,722
2012	2,755,106	28,201	33,819	2,817,126

TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2012			2003		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Participating Government						
State of Maryland	329,704	1	88%	286,659	1	88%
All other (Participating Municipalities)	47,013	2	12%	39,738	2	12%
Total System	376,717			326,397		

Governmental Units Participating in the Systems

as of June 30, 2012

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
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
Caroline County Sheriff Deputies
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
College of Southern Maryland
Chesapeake Bay Commission
Chestertown, Town of
Cheverly, Town of
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
Greenbelt, City of
Greensboro, Town of
Hagerstown, City of
Hagerstown Junior College
Hampstead, Town of
Hancock, Town of
Harford County 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 of
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
Rock Hall, 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 MD. Tri-County Community Action Committee
St. Mary's County Metropolitan Commission
St. Michael's, Commissioners of
Takoma Park, City of
Talbot County Board of Education
Talbot County Council
Taneytown, City of
Thurmont, Town of
Town of University Park
Tri-County Council of Western Maryland
Tri-County Council for Lower Eastern Shore
University Park, Town of
Upper Marlboro, Town of
Walkersville, Town of
Washington County Board of Education
Washington, Board of License Commission
Washington County Library
Westminster, City of
Worcester County Board of Education
Worcester County Commission
Wor-Wic Community College

Withdrawn Governmental Units

Allegany County Government (WMHPA)
Anne Arundel County Economic Opportunity Commission
Anne Arundel County Government
Baltimore Metropolitan Council
Bethesda Fire Department
Caroline County Roads Board
Cresptown Civic Improvement Association
Chevy Chase Fire Department
Elkton, Town of
Frederick County Government
Frederick County Government (WMHPA)
Garrett County Office for Children Youth and Family
Garrett County Commission
Garrett County Roads Board
Harford County Liquor Board
Lexington Market Authority
Maryland Environmental Service
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
Wicomico County Department of
Recreation and Parks
Wicomico County Roads Board

Plan Summary

Teachers' Retirement System

A COMPOSITE PICTURE

	2012	2011
Total Membership		
Active Vested	2,040	2,589
Active Non-vested	–	–
Vested Former Members	623	750
Retired Members	29,705	30,012
Active Members		
Number	2,040	2,589
Average Age	62.0	61.3
Average Years of Service	36.7	35.8
Average Annual Salary	$ 87,520	86,952
Retirees & Beneficiaries		
Number	29,705	30,012
Average Age	74.9	74.6
Average Monthly Benefit	$ 2,818	2,694

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

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

Member Contributions

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

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

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

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

Service Retirement Allowances

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

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

Early Retirement Allowances

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

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

Ordinary Disability Retirement Allowances

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

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

Accidental Disability Retirement Allowances

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

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

Death Benefits

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

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

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

Vested Retirement Allowances

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

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

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

Cost-of-Living Adjustments

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

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

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

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

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

Part 2: The COLAs are limited to 3%.

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

Optional Forms of Payment

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

Teachers' Pension System

A COMPOSITE PICTURE

	2012	2011
Total Membership		
Active Vested	80,778	78,620
Active Non-vested	20,876	24,319
Vested Former Members	22,410	21,867
Retired Members	33,994	30,553
Active Members		
Number	101,654	102,939
Average Age	44.9	44.8
Average Years of Service	11.6	11.4
Average Annual Salary	$ 58,060	58,014
Retirees & Beneficiaries		
Number	33,994	30,553
Average Age	68.3	68.0
Average Monthly Benefit	$ 1,601	1,513

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).

All individuals who are members of the Teacher's Pension System on or before June 30, 2011, participate in the Alternate Contributory Pension Selection (ACPS) except for the few members who transferred from the Teachers' Retirement System after April 1, 1998 or former vested members who terminated employment prior to July 1, 1998.

All individuals who enroll in the Teachers' Pension System on or after July 1, 2011, participate in the Reformed Contributory Pension Benefit (RCPB)

Member Contributions

All ACPS members are required to contribute 7% of earnable compensation during FY2010.

Service Pension Allowances

ACPS Eligibility — 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

RCPB Eligibility — Members are eligible for full service pension allowances when their combined age and eligibility service equals at least 90 years or they attain age 65 after 10 years of eligibility service.
ACPS Allowances — Service pension allowances equal 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998, plus 1.8% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued on and after July 1, 1998.
RCPB Allowances — Service pension allowances equal 1.5% of AFC for the five highest consecutive years as an employee for each year of creditable service on or after July 1, 2011.

Early Service Pension Allowances

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

ACPS 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.
RCPB Eligibility — Members are eligible for early service pension allowances upon attaining age 60 with at least 15 years of eligibility service.
RCPB 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 65. The maximum reduction is 30%.

Ordinary Disability Pension Allowances

Eligibility — ACPS and RCPB 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 and RCPB 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 and RCPB 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

ACPS Eligibility — 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.

ACPS 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.

RCPB Eligibility — Members are eligible for vested pension allowances after separation from service and upon reaching age 65, provided that at least 10 years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 60 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 65

RCPB 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 65, 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. Effective July 1, 1998, the adjustment is capped at a maximum 3% and is applied to all benefits which have been in payment for one year.

For ACPS and RCPB retirement allowances attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate (currently 7.75% as approved by the Board of Trustees). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of 7.75%.

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

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the 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

	2012	2011
Total Membership		
Active Vested	6,248	6,066
Active Non-vested	2,865	3,123
Vested Former Members	898	950
Retired Members	22,796	23,230
Active Members		
Number	9,113	9,189
Average Age	43.7	43.7
Average Years of Service	13.0	13.2
Average Annual Salary	$ 46,233	$ 47,064
Retirees & Beneficiaries		
Number	22,796	23,230
Average Age	72.9	72.8
Average Monthly Benefit	$ 1,691	$ 1,615

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

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

Member Contributions

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

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

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

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

Service Retirement Allowances

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

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

Early Retirement Allowances

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

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

Ordinary Disability Retirement Allowances

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

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

Accidental Disability Retirement Allowances

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

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

Death Benefits

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

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

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

Vested Retirement Allowances

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

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

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

Cost-of-Living Adjustments

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

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

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

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

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

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

Optional Forms of Payment

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

Miscellaneous Provisions for Members of the Maryland General Assembly

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

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

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

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

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

Miscellaneous Provisions for State Correctional Officers

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

Pension Changes (CORS Only)

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

Employees' Pension System

A COMPOSITE PICTURE

	2012	2011
Total Membership		
Active Vested	58,058	57,039
Active Non-vested	18,003	19,225
Vested Former Members	26,977	27,028
Retired Members	41,840	39,339
Active Members		
Number	76,061	76,264
Average Age	48.5	48.3
Average Years of Service	12.3	12.2
Average Annual Salary	$ 47,030	$ 47,143
Retirees & Beneficiaries		
Number	41,840	39,339
Average Age	68.0	67.6
Average Monthly Benefit	$ 1,028	$ 982

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 four 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.

Reformed Contributory Pension Benefit (RCPB)

The RCPB was established as of July 1, 2011 and consists of all State employees and, employees of participating governmental units enrolling in the EPS on or after July 1, 2011. It does not apply to employees of participating governmental units participating in the NCPS or ECPS who in enroll in the Employees' Pension System on or after July 1, 2011.

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 7% of earnable compensation.
RCPB — Members were required to contribute 7% of earnable compensation.

Service Pension Allowances

NCPS, ECPS, and ACPS Eligibility — 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

RCPB Eligibility - Members are eligible for full service pension allowances when their combined age and eligibility service equals at least 90 years or they attain age 65 after 10 years of eligibility service.

Allowances

NCPS - Full service pension allowance equals .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 the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.4% of the AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998.

ACPS - Full service pension allowance equals 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.8% of the AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998.

RCPB - Full service pension allowance equals 1.5% of AFC for the five highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 2011.

Early Service Pension Allowances

NCPS, ECPS, and ACPS Eligibility — Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

NCPS, ECPS, and ACPS 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.

RCPB Eligibility — Members are eligible for early service pension allowances upon attaining age 60 with at least 15 years of eligibility service.

RCPB Allowances — Early service pension allowances equal the amount payable for a full service pension reduced by .5% for each month by which the retirement date precedes the date on which the members reach age 65. The maximum reduction is 30%.

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.

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

NCPS, ECPS, and ACPS Eligibility — 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.

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

RCPB Eligibility — Members are eligible for vested pension allowances after separation from service and upon reaching age 65, provided that at least 10 years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 60 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 65.

RCPB 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 65, 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.

For retirement allowances attributable to service earned on or before June 30, 2011:

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

For any EPS retirement allowance attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate (currently 7.75% as approved by the Board of Trustees). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of 7.75%.

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

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the 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

	2012	2011
Total Membership		
Active Vested	294	286
Active Non-vested	–	–
Vested Former Members	10	11
6Retired Members	365	358
Active Members		
Number	294	286
Average Age	58.1	57.9
Average Years of Service	9.4	9.5
Average Annual Salary	$ 135,903	$ 135,700
Retirees & Beneficiaries		
Number	365	358
Average Age	76.5	76.2
Average Monthly Benefit	$ 5,742	$ 5,726

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).

Pension Changes

Effective July 1, 2012, the member contribution for all members of the JRS increases to 8%.

Effective July 1, 2012, for new members of the JRS vesting will require five years of eligibility service.

State Police Retirement System

A COMPOSITE PICTURE

	2012	2011
Total Membership		
Active Vested	991	947
Active Non-vested	341	348
Vested Former Members	85	91
Retired Members	2,387	2,371
Active Members		
Number	1,332	1,295
Average Age	35.3	35.0
Average Years of Service	10.7	10.5
Average Annual Salary	$ 58,326	$ 58,341
Retirees & Beneficiaries		
Number	2,387	2,371
Average Age	60.8	60.3
Average Monthly Benefit	$ 3,700	$ 3,601

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 who are members on or before June 30, 2011, are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 22 years of eligibility service regardless of age. For individuals who become members on or after July 1, 2011, 25 years of eligibility service or attainment of age 50. Except for the Superintendent, all SPRS members must retire at age 60.

Allowances — For individuals who are members on or before June 30, 2011, a full service retirement allowance equals 2.55% of AFC for the five highest years as a member for each year of creditable service, up to a maximum 71.4% of AFC (28 years). For individuals who become members on or after July 1, 2011, 2.55% of AFC for the five highest years as a member for each of the first 29 years of 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 — 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 — Individuals who are SPRS members on or before June 30, 2011, 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. Individuals who are SPRS members on or after July 1, 2011, are eligible for vested retirement allowances after separation from service and upon reaching age 50, provided that at least 10 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 attributable to service earned on or before June 30, 2011, are adjusted each year based on the Consumer Price Index.

For retirement allowance attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate (currently 7.75% as approved by the Board of Trustees). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of 7.75%.

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

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). For SRPS members who enter DROP on or before June 30, 2011, they must have at least 22 years of creditable service, but less than 28 years, and be under age 60. For SRPS members who enter DROP on or after July 1, 2011, they must have at least 22 years of creditable service, but less than 29 years, and be under age 60. The maximum period of participation is 4 years.

For members who enter the DROP on or before June 30, 2011, the SPRS member is deemed retired and the retirement allowance is placed in an account earning 6% interest per year, compounded monthly. For members who enter the DROP on or after July 1, 2011, the SPRS member is deemed retired and the retirement allowance is placed in an account earning 4% interest per year, compounded annually. 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

	2012	2011
Total Membership		
Active Vested	1,849	1,771
Active Non-vested	561	640
Vested Former Members	227	214
Retired Members	1,396	1,302
Active Members		
Number	2,410	2,411
Average Age	40.6	40.4
Average Years of Service	10.8	10.6
Average Annual Salary	$ 56,094	$ 56,067
Retirees & Beneficiaries		
Number	1,396	1,302
Average Age	57.7	57.3
Average Monthly Benefit	$ 2,683	$ 2,619

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).

Beginning July 1, 2011, members subject to pension plan provisions contribute 6% of annual earnable compensation during employment. Beginning July 1, 2012, member contributions will increase to 7% of earnable compensation.

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 who became members of LEOPS on or before June 30, 2011, full service pension allowances equal 2.0% of AFC for the three highest consecutive years as an employee, up to a maximum benefit of 60% of AFC (30 years of credit). For members subject to the pension system provisions who become members of LEOPS on or after July 1, 2011, full service pension allowances equal 2.0% of AFC for the five highest consecutive years as an employee, 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 — Members who join LEOPS on or before June 30, 2011, 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. Members who join LEOPS on or after July 1, 2011, are eligible for vested pension allowances after separation from service and upon attaining age 50, provided that they accumulated at least 10 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, the annual COLA for retirement allowances attributable to service earned on or before June 30, 2011, is limited to 3% of the annual allowance. For retirement allowances attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate (currently 7.75% as approved by the Board of Trustees). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of 7.75%.

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

Optional Forms of Payment

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. For members who enter the DROP on or before June 30, 2011, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 6% interest per year, compounded monthly. For members who enter the DROP on or after July 1, 2011, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 4% interest per year, compounded annually. 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..