Financial Section

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Maryland State Retirement and Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland State Retirement and Pension System (the System), which is a pension trust fund of the State of Maryland, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The System's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of June 30, 2015 and 2014, and the respective changes in plan net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in employers' net pension liability, schedule of employers' net pension liability and related ratios, schedule of employers' contributions and related ratios, schedule of investment returns, and notes to required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory, other supplementary information, investment, actuarial, statistical 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedule of funding progress, schedule of contributions from employers and other contributing entity, fund balance accounts, schedule of fund balances, schedule of administrative expenses, schedule of investment expenses, schedule of plan net position by system, and schedule of changes in plan net position by system are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information as listed in the previous paragraph is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information as listed in the previous paragraph is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, statistical, and plan summary sections have 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 them.

SB & Company, LLC

Hunt Valley, Maryland
November 24, 2015

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, 2015, 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 24.

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 Position and Statements of Changes in Plan Net Position, along with the related note disclosures. In addition, the System's financial statements include certain required supplementary information (e.g., schedule of changes in employers' net pension liability, schedule of employers' net pension liability, schedule of employers' contributions, and schedule of investment returns) 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 position by system, and related changes by system). To better understand the relevance of the information presented in the System's financial statements, related notes, and supplementary information, it is helpful to first consider what purpose each component is intended to serve.

The Statements of Plan Net Position 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 position available to pay future pension benefits to retirees and beneficiaries. To assist the reader in understanding the composition of the System's accumulated net position 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 position held in trust to pay pension benefits.

By contrast, the Statements of Changes in Plan Net Position are intended to show, on a comparative basis, the major categories of income earned (additions to plan net position) and expenses incurred (deductions from plan net position) 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 position 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 Position, 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.

The Schedule of Funding Progress, while similar in scope to the Statements of Plan Net Position 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 Position. 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 of Changes in Employers' Net Pension Liability, Schedule of Employers' Net Pension Liability, Schedule of Employers' Contributions, and Schedule of Investment Returns share common characteristics with data disclosed in the basic financial statements. In this regard, both the Statements of Changes in Plan Net Position and the Schedule of Contributions from Employers and Other Contributing Entity disclose the amount of contributions received from participating employers. However, the Schedule of Employer Contributions differs from the Statements of Changes in Plan Net Position 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.

ANALYSIS OF RECENT ACCOUNTING PRONOUNCEMENTS

In February 2015, the Government Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*, (GASB 72) that reflects a change in disclosure of investments by requiring governments to disclose the fair value measurements, level of fair value hierarchy, and valuation techniques used to determine the level in the hierarchy. These disclosures will begin in fiscal year 2016.

Fiscal Year 2015 compared to 2014

The following condensed comparative Statement of Plan Net Position for the fiscal years ended June 30, 2015 and 2014, presents an increase in the System's net position of $449.8 (1.0%). This increase is primarily due to positive net returns in the investment portfolio, led by public equity, private equity, real estate and debt. Additional information on our fiscal year 2015 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 2015 to 2014 is as follows (expressed in millions):

	June 30,		Change	
	2015	**2014**	**Variance**	**%**
Cash & cash equivalents	**$ 1,134.3**	$ 2,054.2	$ (919.9)	-44.8%
U.S. Government obligations	**4,521.5**	3,422.8	1,098.7	32.1%
Domestic corporate obligations	**3,688.1**	3,803.3	(115.2)	-3.0%
International obligations	**910.9**	1,870.1	(959.2)	-51.3%
Domestic stocks	**8,471.7**	8,344.4	127.3	1.5%
International stocks	**7,816.1**	8,057.3	(241.2)	-3.0%
Mortgages & mortgage related securities	**1,895.9**	1,926.7	(30.8)	-1.6%
Alternative investments	**17,633.3**	16,358.8	1,274.5	7.8%
Total managed investments	**46,071.8**	45,837.6	234.2	0.5%
Collateral for loaned securities	**1,343.5**	2,490.9	(1,147.4)	-46.1%
Total investments and cash & cash equivalents	**47,415.3**	48,328.5	(913.2)	-1.9%
Receivables	**1,075.1**	848.8	226.3	26.7%
Total Assets	**48,490.4**	49,177.3	(686.9)	-1.4%
Liabilities	**2,700.6**	3,837.3	(1,136.7)	-29.6%
Total Net Position, End of Year	**$ 45,789.8**	$ 45,340.0	$ 449.8	1.0%

As depicted in the following comparative Statement of Changes in Plan Net Position for fiscal years 2015 and 2014, contributions to the System during fiscal year 2015 increased slightly as a result of an increase in covered payroll and the State's reinvestment contribution of savings as a result of the pension reform legislation passed during the 2011 General Assembly session. The System's investments experienced a positive weighted average investment return of 2.59%, recognizing $1,197.7 million in net investment income.

The System continues to pay out more benefits than contributions collected. An increase of $162.8 in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries experienced in fiscal year 2015. This increase offset against $1,197.7 million of fiscal year 2015 investment returns resulted in a net change in pension net position of $449.8.

A schedule of the System's additions to and deductions from plan net position and related changes (by major category) from fiscal year 2015 to 2014, is as follows (expressed in millions):

	June 30,		Change	
	2015	**2014**	**Variance**	**%**
Employer contributions	**$ 1,127.9**	$ 1,016.6	$ 111.3	10.9%
Member contributions	**755.4**	727.7	27.7	3.8%
State contributions on behalf of local governments & contribution interest	**730.7**	717.0	13.7	1.9%
Net investment income	**1,197.7**	5,706.3	(4,508.6)	-79.0%
Total additions	**3,811.7**	8,167.6	(4,355.9)	-53.3%
Benefit payments	**3,284.6**	3,121.8	162.8	5.2%
Refunds	**48.2**	42.9	5.3	12.4%
Administrative expenses	**29.1**	26.1	3.0	11.5%
Total deductions	**3,361.9**	3,190.8	171.1	5.4%
Net increase in plan net position	**$ 449.8**	$ 4,976.8	$ (4,527.0)	-91.0%

Analysis of Net Pension Liability (expressed in millions)

	June 30,		Change	
	2015	**2014**	**Variance**	**%**
Total Pension Liability	$ 66,571.6	$ 63,086.7	$ 3,484.9	5.5%
Plan Fiduciary Net Position	45,789.8	45,340.0	449.8	1.0%
Net Pension Liability	$ 20,781.8	$ 17,746.7	$ 3,035.1	17.1%
Ratio - Fiduciary Net Position/TPL	68.8%	71.9%		

During the year the net pension liability increased by $3,035.1 million. This was mainly due to decrease in net investment income of $4,508.6 million, combined with a growth in expenses of $171.1 million.

Fiscal Year 2014 compared to 2013

The following condensed comparative Statement of Plan Net Position for the fiscal years ended June 30, 2014 and 2013, presents an increase in the System's net position of $4.98 billion (12.3%). This increase is primarily due to positive net returns in the investment portfolio, led by public equity, private equity, real estate and debt. Additional information on our fiscal year 2014 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 2013 to 2014 follows (expressed in millions):

	June 30,		Change	
	2014	**2013**	**Variance**	**%**
Cash & cash equivalents	**$ 2,054.2**	$ 2,085.1	$ (30.9)	-1.5%
U.S. Government obligations	**3,422.8**	3,556.6	(133.8)	-3.8%
Domestic corporate obligations	**3,803.3**	2,771.8	1,031.5	37.2%
International obligations	**1,870.1**	1,603.7	266.4	16.6%
Domestic stocks	**8,344.4**	8,255.4	89.0	1.1%
International stocks	**8,057.3**	7,827.1	230.2	2.9%
Mortgages & mortgage related securities	**1,926.7**	2,079.5	(152.8)	-7.3%
Alternative investments	**16,358.8**	12,227.2	4,131.6	33.8%
Total managed investments	**45,837.6**	40,406.4	5,431.2	13.4%
Collateral for loaned securities	**2,490.9**	2,876.4	(385.5)	-13.4%
Total investments and cash & cash equivalents	**48,328.5**	43,282.8	5,045.7	11.7%
Receivables	**848.8**	1,455.2	(606.4)	-41.7%
Total Assets	**49,177.3**	44,738.0	4,439.3	9.9%
Liabilities	**3,837.3**	4,374.8	(537.5)	-12.3%
Total Net Position, End of Year	**$ 45,340.0**	$ 40,363.2	$ 4,976.8	

The System continues to pay out more benefits than contributions collected. An increase of $171.1 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries experienced in fiscal year 2014. This increase offset against $5,706.3 million of fiscal year 2014 investment returns resulted in a net change in pension net position of $4,976.8 million.

As depicted in the following comparative Statement of Changes in Plan Net Position for fiscal years 2014 and 2013, contributions to the System during fiscal year 2014 increased slightly as a result of an increase in covered payroll and the State's reinvestment contribution of savings as a result of the pension reform legislation passed during the 2011 General Assembly session. The System's investments experienced a positive weighted average investment return of 14.38%, recognizing $5,706.3 million in net investment income.

A schedule of the System's additions to and deductions from plan net position and related changes (by major category) from fiscal year 2013 to 2014, is as follows (expressed in millions):

	June 30, 2014	June 30, 2013	Change Variance	Change %
Employer contributions	**$ 1,016.6**	$ 959.6	$ 57.0	5.9%
Member contributions	**727.7**	710.9	16.8	2.4%
State contributions on behalf of local governments & contribution interest	**717.0**	683.5	33.5	4.9%
Net investment income	**5,706.3**	3,845.8	1,860.5	48.4%
Total additions	**8,167.6**	6,199.8	1,967.8	31.7%
Benefit payments	**3,121.8**	2,950.7	171.1	5.8%
Refunds	**42.9**	38.3	4.6	12.0%
Administrative expenses	**26.1**	26.3	(0.2)	-0.8%
Total deductions	**3,190.8**	3,015.3	175.5	5.8%
Net increase in plan net position	**$ 4,976.8**	$ 3,184.5	$ 1,792.3	56.3%

Analysis of Net Pension Liability (expressed in millions)

	June 30, 2014	June 30, 2013	Change Variance	Change %
Total Pension Liability	$ 63,086.7	$ 60,060.1	$ 3,026.6	5.0%
Plan Fiduciary Net Position	45,340.0	40,363.2	4,976.8	12.3%
Net Pension Liability	$ 17,746.7	$ 19,696.9	$ (1,950.2)	-9.9%
Ratio - Fiduciary Net Position/TPL	71.9%	67.2%		

During the year the net pension liability decreased by $1,950.2 million. This was mainly due to investment income of $1,860.5 million, which outpaced the growth in expenses of $175.5 million.

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 POSITION
As of June 30, 2015 and 2014
(Expressed in Thousands)

	2015	2014
Assets:		
Cash & Cash Equivalents (note 3)	**$ 1,134,336**	$ 2,054,181
Receivables		
Contributions:		
Employers	**35,612**	19,971
Employers – long term (Note 5)	**31,254**	34,806
Members	**11,526**	11,003
Accrued investment income	**212,114**	57,800
Investment sales proceeds	**784,555**	725,188
Total receivables	**1,075,061**	848,768
Investments, at fair value (Notes 2 & 3)		
U.S. Government obligations	**4,521,543**	3,422,824
Domestic corporate obligations	**3,688,098**	3,803,260
International obligations	**910,924**	1,870,144
Domestic stocks	**8,471,692**	8,344,356
International stocks	**7,816,127**	8,057,309
Mortgages & mortgage related securities	**1,895,887**	1,926,733
Alternative investments	**17,633,283**	16,358,754
Collateral for loaned securities	**1,343,489**	2,490,916
Total investments	**46,281,043**	46,274,296
Total Assets	**48,490,440**	49,177,245
Liabilities:		
Accounts payable & accrued expenses (Note 8)	**61,272**	60,964
Investment commitments payable	**1,295,839**	1,285,377
Obligation for collateral for loaned securities	**1,343,489**	2,490,916
Total Liabilities	**2,700,600**	3,837,257
Net position held in trust for pension benefits	**$ 45,789,840**	$ 45,339,988

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF CHANGES IN PLAN NET POSITION
for the Fiscal Years Ended June 30, 2015 and 2014
(Expressed in Thousands)

	2015	2014
ADDITIONS:		
Contributions:		
Employers	**$ 1,127,888**	$ 1,016,653
Members	**755,444**	727,726
State contributions on behalf of local governments	**728,931**	714,974
Contribution interest	**1,793**	2,026
Total contributions	**2,614,056**	2,461,379
Investment Income:		
Net (depreciation) appreciation in fair value of investments	**(126,669)**	4,185,982
Interest	**242,611**	581,186
Dividends	**1,420,987**	1,259,615
Income before securities lending activity	**1,536,929**	6,026,783
Gross income from securities lending activity	**9,656**	10,945
Securities lending borrower rebates	**(390)**	(174)
Securities lending agent fees	**(1,444)**	(1,688)
Net income from securities lending activity	**7,822**	9,083
Total investment income	**1,544,751**	6,035,866
Investment expenses	**(347,080)**	(329,599)
Net investment income	**1,197,671**	5,706,267
TOTAL ADDITIONS	**3,811,727**	8,167,646
DEDUCTIONS:		
Benefit payments	**3,284,550**	3,121,823
Refunds	**48,245**	42,922
Administrative expenses	**29,080**	26,130
TOTAL DEDUCTIONS	**3,361,875**	3,190,875
Net increase in plan position	**449,852**	4,976,771
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the fiscal year	**45,339,988**	40,363,217
END OF THE FISCAL YEAR	**$ 45,789,840**	$ 45,339,988

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 15-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") share in the liabilities of the Municipal Pool only.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The State is obligated to annually pay into the accumulation fund of each State system at least an amount that, when combined with the System's accumulation funds, is sufficient to provide benefits payable under each plan during that fiscal year. The System is accounted for as one defined benefit plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67 "Financial Reporting for Pension Plans." Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

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

B. Covered Members

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

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials, and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System. Currently, more than 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 tables present a summary of membership by system as of June 30, 2015 and 2014, with comparative prior year totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	24,541	71,176	80,693	24,833	105,526
Employees' Retirement & Pension Systems*	27,846	72,058	60,791	23,094	83,885
Judges' Retirement System	8	397	243	64	307
State Police Retirement System	81	2,508	988	406	1,394
Law Enforcement Officers' Pension System	293	1,711	1,840	648	2,488
Total as of June 30, 2015	**52,769**	**147,850**	**144,555**	**49,045**	**193,600**
Total as of June 30, 2014	52,133	142,887	147,418	46,104	193,522

*Employees Retirement and Pension System includes 65 vested and 26 non-vested active members, and 27 retired members from the Correctional Officers Retirement System.

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	24,220	68,929	81,595	22,875	104,470
Employees' Retirement & Pension Systems*	27,540	69,482	62,739	22,177	84,916
Judges' Retirement System	8	395	254	47	301
State Police Retirement System	82	2,468	998	353	1,351
Law Enforcement Officers' Pension System	283	1,613	1,832	652	2,484
Total as of June 30, 2014	52,133	142,887	147,418	46,104	193,522
Total as of June 30, 2013	51,552	137,925	150,001	42,809	192,810

*Employees Retirement and Pension System includes 50 vested and 41 non-vested active members, 23 retired members, and 2 deferred vested members from the 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 2013 and 7% in fiscal year 2014 and beyond for members of the Law Enforcement Officers' Pension System. Beginning July 1, 2013, 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 7.55%).

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2015, 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 five 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, 2013, has no minimum service requirements prior to vesting. However, individuals who join the Judges' Retirement System on or after July 1, 2013, 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 eight 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 five 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 five 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 the Teachers' and Employees' Retirement Systems (TRS/ERS) the method by which the annual COLA's 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) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

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. 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 return. 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's 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 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 most recent independently audited financial statements adjusted for cash flows). Alternative investments generally value their funds in accordance with Generally Accepted Accounting Principles using a hierarchy process whereby level 1 represents price available from active markets, level 2 relies on observation, models or other valuation methodologies and level 3 is based on management judgement and estimations. Investment amounts presented in the accompanying Statements of Plan Net Position 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 Position represent the income or loss derived 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

As permitted by guidelines established by the Board of Trustees the System may invest in derivatives. Compliance with these guidelines is monitored by Agency staff. Pursuant to such authority, the System invests in foreign currency forward contracts, options, futures, and swaps. The Agency does not purchase rights and warrants; however, can accrue ownership through corporate actions. 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 currency valuations or interest rates. 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. 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 active membership and percentage ownership in the System's net position, respectively. The System's investment expenses are funded from investment income. The System's administrative expenses are funded from administrative fees assessed to each participating employer. See pages 52 and 53 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2015 and 2014, the System qualifies 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 (IPM), which is available on the Agency's web site. The IPM authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to:

Type	Description	As of June 30, 2015 Strategic Target	As of June 30, 2015 Actual
Public Equity	Investments in securities, known as shares or stocks, that represent an ownership interest in corporations and are generally traded on a stock exchange.	35.0%	37.6%
Fixed Income	Investments in securities, known as bonds, that represent an ownership interest in the debt of governments and corporations that are generally not traded on an exchange. They generally pay interest on a regular schedule and repay principal or face value at maturity.	10.0%	12.9%
Credit/Debt Related Strategies	Debt issued by corporations and other non-government sectors of the fixed income market such as distressed debt, convertibles, corporate and mortgage related credit strategies, mezzanine debt, bank loans, high yield, emerging markets and preferred securities.	10.0%	9.7%
Alternative Investment:			
Absolute Return	Investments whose performance is expected to deliver absolute returns in any market conditions. The System's program may include strategies such as hedge fund of funds, multi-strategy, global tactical asset allocation, event driven, relative value, macro, insurance and equity hedged.	10.0%	10.7%
Private Equity	Investments in companies that are not registered with the SEC and are not traded in the public markets. Private equity may also be referred to as venture capital or buy-outs.	10.0%	8.0%
Real Estate	Investment in real property including office buildings, shopping centers, industrial property, warehouses, and apartments. Investment vehicles may include direct investments, REITS, and private partnerships.	10.0%	7.4%
Real Return	Investments whose performance is expected to exceed the rate of inflation over an economic cycle. The System's Real Return program may include the following investment vehicles in both public and private investments: treasury inflation protected, global inflation linked bonds, commodities, energy related, infrastructure, timber and other natural resources, and multi-asset class portfolios with a real return mandate.	14.0%	13.2%
Cash Portfolio	Short term investments such as money market funds, U.S. treasury bills and currency.	1.0%	0.5%

The above listed strategic targets have been in effect since July 1, 2013. All asset classes are within the approved target ranges, which have been identified within the Chief Financial Officer's Report in the Investment Section of this report. 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 investment instruments authorized by the investment policy. The System's Board of Trustees has established a policy that determines collateralization percentages necessary for both foreign and domestic demand deposits. The policy requires collateral equal to 105% for international equity securities and 102% for all other securities, which is marked to market daily. See section G for additional information.

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, 2015 and June 30, 2014, was $1,134,336 and $2,054,181 (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, 2015, 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:

	Fair Value	Investment Maturities (in years)			
Investment Type:	**(in thousands)**	**Less than 1**	**1 thru 5**	**5+ thru 10**	**More than 10**
Asset backed securities	$ 426,930	$ 1,510	$ 143,538	$ 63,609	$ 218,273
Bank loans	358,564	19,084	144,794	194,686	-
Collateralized mortgage backed securities	707	-	-	-	707
Collateralized mortgage obligations	599,984	-	9,578	42,152	548,254
Credit/debt commingled funds	1,935,645	93,649	1,343,149	427,134	71,713
Convertible bonds	50,905	1,600	25,356	14,717	9,232
Domestic corporate obligations	2,197,663	55,479	733,359	1,092,138	316,687
International obligations	1,452,966	54,966	264,489	575,049	558,462
Mortgage pass-throughs	1,308,913	-	9,167	42,468	1,257,278
Municipals	50,882	2,001	19,112	11,054	18,715
Options	(2,567)	(2,250)	(213)	(2)	(102)
Short-term	992,672	992,672	-	-	-
Swaps	11,886	5,132	(1,129)	1,028	6,855
U.S. government agency	425,801	1,071	396,514	20,516	7,700
U.S. treasury inflation linked	3,054,426	59,684	1,426,205	1,568,537	-
U.S. treasury notes/bonds	1,028,861	-	12,762	28,918	987,181
U.S. treasury strips	12,455	-	1,550	-	10,905
Yankee bonds	512,487	33,862	199,768	185,950	92,907
Total	**$ 14,419,180**	**$ 1,318,460**	**$ 4,727,999**	**$ 4,267,954**	**$ 4,104,767**

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 Statements of Plan Net Position.

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, 2015 and 2014.

As of June 30, 2015, the System had $1,308,913 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, 2015, are identified in greater detail in Note 4.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2015 and 2014, is shown below:

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

Rating	2015 Fair Value	Percentage Total Investments	2014 Fair Value	Percentage Total Investments
AAA	$ 531,255	1.160%	$ 766,342	1.690%
AA	912,092	1.992%	1,201,044	2.649%
A	1,738,962	3.798%	2,550,887	5.626%
BAA	507,701	1.109%	559,154	1.233%
BA	22,904	0.050%	21,361	0.047%
BBB	1,297,771	2.834%	1,316,746	2.904%
BB	369,044	0.806%	372,866	0.822%
B	370,986	0.810%	241,736	0.533%
CAA	32,950	0.072%	53,322	0.118%
CA	4,164	0.009%	1,821	0.004%
CCC	110,722	0.242%	115,727	0.255%
CC	9,813	0.021%	15,081	0.033%
C	567	0.001%	3,016	0.007%
D	15,149	0.033%	15,592	0.034%
NR	2,352,764	5.138%	2,207,752	4.869%
	$ 8,276,844		**$ 9,442,447**	

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, 2015 is shown below:

International Investment Securities – At Fair Value as of June 30, 2015
(U.S. Dollars in Thousands)

Currency	Equity	Fixed Income	Cash	Alternative Investments	Total
Australian Dollar	$ 209,350	$ 8,972	$ 2,013	$ 104,799	**$ 325,134**
Brazilian Real	31,317	25,276	976	6,630	**64,199**
Canadian Dollar	310,532	22,430	4,518	40,558	**378,038**
Czech Koruna	5,984	-	1	-	**5,985**
Danish Krone	96,403	93	376	8,018	**104,890**
Egyptian Pound	3,149	-	106	-	**3,255**
Euro Currency	1,554,077	442,419	19,059	887,969	**2,903,524**
Hong Kong Dollar	354,169	-	3,475	53,242	**410,886**
Hungarian Forint	1,469	-	18	-	**1,487**
Indonesian Rupiah	10,606	-	240	-	**10,846**
Japanese Yen	989,957	63,338	11,753	86,190	**1,151,238**
Malaysian Ringgit	15,046	-	374	-	**15,420**
Mexican Peso	19,172	35,577	1,604	10,846	**67,199**
New Israeli Sheqel	14,472	-	148	291	**14,911**
New Russian Ruble	-	97	4	-	**101**
New Taiwan Dollar	38,108	-	219	-	**38,327**
New Zealand Dollar	3,528	4,885	282	16,232	**24,927**
Norwegian Krone	61,883	446	765	1,399	**64,493**
Philippine Peso	2,210	-	14	-	**2,224**
Polish Zloty	7,798	9,592	349	-	**17,739**
Pound Sterling	1,041,374	137,437	12,021	596,047	**1,786,879**
Qatari Rial	357	-	-	-	**357**
Singapore Dollar	62,009	-	781	14,949	**77,739**
South African Rand	41,875	944	549	-	**43,368**
South Korean Won	109,688	-	555	-	**110,243**
Swedish Krona	130,284	7,593	926	18,198	**157,001**
Swiss Franc	454,868	10,360	506	5,596	**471,330**
Thailand Baht	18,400	-	377	-	**18,777**
Turkish Lira	16,728	-	237	-	**16,965**
Uae Dirham	2,683	-	-	-	**2,683**
Multiple	-	-	81	-	**81**
Total Holdings Subject to Foreign Currency Risk	**$ 5,607,496**	**$ 769,459**	**$ 62,327**	**$ 1,850,964**	**$ 8,290,246**

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, 2015 and 2014 (in thousands):

	2015	2014
Interest income	**$ 9,656**	$ 10,945
Less:		
Interest expense	**390**	174
Program fees	**1,444**	1,688
Expenses from securities lending	**1,834**	1,862
Net income from securities lending	**$ 7,822**	$ 9,083

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, 2015 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 maintains 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, 2015, such investment pool had an average duration of 34.19 days and an average final maturity of 103.23 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. As of June 30, 2015, 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 market value of collateral held and the market value of securities on loan for the System as of June 30, 2015 (in thousands) was $1,343,489 and $1,308,762 respectively.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2015 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral			
U.S. government and agency	$ 291,151	$ 296,958	102.0%
Domestic bond & equity	597,231	608,539	101.9%
International fixed	13,561	13,885	102.4%
International equity	188,550	200,749	106.5%
Lent for noncash collateral			
U.S. government and agency	54,867	56,022	102.1%
Domestic bond & equity	158,501	162,158	102.3%
International equity	4,901	5,178	105.7%
Total securities lent	**$ 1,308,762**	**$ 1,343,489**	102.7%

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
(in Thousands)

	Changes in Fair Value(4)		Fair Value at June 30,2015		
Currency	**Classifications**	**Amount(1)**	**Classification**	**Amount(2)**	**Notional(3)**
Commodity Futures Long	Revenue	$ (111,816)	Futures	$ -	$ 231,643
Commodity Futures Short	Revenue	7,292	Futures	-	(13)
Credit Default Swaps	Revenue	-	Swaps	-	(0)
Credit Default Swaps Bought	Revenue	191	Swaps	(219)	18,941
Credit Default Swaps Written	Revenue	(1,319)	Swaps	418	34,213
Currency Swaps	Revenue	(6,465)	Swaps	6,645	88,380
Fixed Income Futures Long	Revenue	19,570	Futures	-	612,773
Fixed Income Futures Short	Revenue	(54,992)	Futures	-	(1,945,475)
Fixed Income Options Bought	Revenue	(401)	Options	58	19,400
Fixed Income Options Written	Revenue	1,588	Options	(708)	(211,249)
Foreign Currency Options Bought	Revenue	(363)	Options	-	-
Foreign Currency Options Written	Revenue	444	Options	(634)	(40,574)
Futures Options Bought	Revenue	(2,694)	Options	29	873
Futures Options Written	Revenue	13,729	Options	(1,149)	(3,876)
FX Forwards	Revenue	603,166	Instruments	101,115	21,037,078
Index Futures Long	Revenue	1,624	Futures	-	458
Pay Fixed Interest Rate Swaps	Revenue	(19,403)	Swaps	(260)	550,733
Receive Fixed Interest Rate Swaps	Revenue	4,207	Swaps	(366)	75,724
Rights	Revenue	1,083	Common Stock	335	696
Total Return Swaps Bond	Revenue	(93)	Swaps	(93)	3,617
Warrants	Revenue	(179)	Common Stock	7,338	3,469
		$ 455,169		$ 112,509	

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

A. Credit Risk

The System is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to losses related to credit risk, the investment managers use counterparty collateral in their non-exchange-traded derivative instruments. Netting arrangements are also used when entering into more than one derivative instrument transaction with 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, 2015, was $513,665. 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 & Poor's (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 (in thousands):

Market Value	S&P Rating	Market Value	Moody's Rating	Market Value	Fitch Rating
$ 206,384	AA-	$ 86,815	Aa1	$ 32,513	AA
145,017	A+	88,394	Aa2	375,004	AA-
96,914	A	71,208	Aa3	16,730	A+
62,606	A-	110,158	A1	89,378	A
2,744	BBB+	152,261	A2	12	BBB+
		4,800	A3	28	NR
		29	Baa1		
$ 513,665	(1)	$ 513,665	(1)	$ 513,665	(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
TORONTO DOMINION BANK	17%	AA-	AA-	Aa1
HSBC BANKPLC	14%	A	AA-	A1
BARCLAYS BANK PLC WHOLESALE	12%	A-	A	A2
STANDARD CHARTERED BANK	9%	A+	AA-	Aa2
NORTHERN TRUST COMPANY, THE	9%	AA-	AA-	A2
WESTPAC BANKING CORPORATION	8%	AA-	AA-	Aa2
JPMORGAN CHASE BANK NA LONDON	7%	A+	AA-	Aa3
ROYAL BANK OF CANADA (UK)	6%	AA-	AA	Aa3
STATE STREET BANK LONDON	5%	A+	AA-	A2
UBS AG LONDON	4%	A	A	A2
BANK OF NEW YORK	3%	A+	AA-	A1
BNP PARIBAS SA	3%	A+	A+	A1

B. Interest Rate Risk

During Fiscal year 2015 the Agency was exposed to interest rate risk. For more details refer to the Interest Rate Risk Note 3.D. (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 3.F. (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, 2014, 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 was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period.

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, 2015 and 2014, the outstanding balances were $31,254 and $34,806 (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, 2015 and 2014, refunds to members and withdrawing employers were $48,245 and $42,922 (expressed in thousands), respectively.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2015 and 2014, accounts payable and accrued expenses consisted of the following components (expressed in thousands):

	2015	2014
Administrative expenses	**$ 1,602**	$ 1,374
Investment management fees	**23,849**	25,790
Tax and other withholdings	**35,821**	33,800
Total	**$ 61,272**	$ 60,964

9. NET PENSION LIABILITY

The components of the net pension liability of the participating employers as of June 30, 2014 were as follows:

(expressed in thousands)	2015	2014
Total Pension Liability (TPL)	$ 66,571,552	$ 63,086,719
Plan Fiduciary Net Position	45,789,840	45,339,988
Net Pension Liability	$ 20,781,712	17,746,731
Ratio - Fiduciary Net Position/TPL	68.78%	71.87%

A. Actuarial Assumptions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2012 actuarial valuation: eight years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000 and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 25 years for the State Systems, 26 years for LEOPS Muni, and 32 years for CORS Muni. For ECS Muni: seven years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL.
Asset Valuation Method	five-year smoothed market; 20% collar
Inflation	In the 2012 actuarial valuation, 3.00% general, 3.50% wage. In the 2013 actuarial valuation, 2.95% general, 3.45% wage.
Salary Increases	In the 2012 actuarial valuation, 3.50% to 10.75% including inflation. In the 2013 actuarial valuation, 3.45% to 10.70% including inflation.
Investment Rate of Return	In the 2012 actuarial valuation, 7.75%. In the 2013 actuarial valuation, 7.70%.
Discount Rate	7.55%
Investment Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

B. Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	100%	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2015.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 2.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Discount Rate

A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

(Expressed in thousands)

System	1% Decrease to 6.55%	Current Discount	1% Increase to 8.55%
Teachers	$ 16,644,282	$ 11,475,111	$ 7,195,377
Employees	10,783,267	7,896,975	5,487,375
State Police	1,099,538	808,268	573,758
Judges	150,900	96,070	49,557
LEOPS	689,960	504,575	354,597
CORS	3,816	714	(1,816)
Total System Net Pension Liability	**$ 29,371,763**	**$ 20,781,713**	**$ 13,658,848**

REQUIRED SUPPLEMENTARY INFORMATION

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	State Police Retirement System
Total pension liability			
Service cost	$ 783,603	$ 461,524	$ 30,556
Interest	2,811,261	1,663,866	147,839
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(476,190)	(19,591)	(10,512)
Changes in assumptions	753,521	375,148	86,689
Benefit payments, including refunds of employee contributions	(1,958,092)	(1,170,116)	(119,804)
Net change in total pension liability	1,914,103	1,310,831	134,768
Total pension liability, beginning of year	37,324,936	22,097,648	1,976,338
Total pension liability, end of year (a)	$ 39,239,039	$ 23,408,479	$ 2,111,106
Plan fiduciary net position			
Contributions - employer	$ 1,063,763	$ 643,219	$ 76,056
Contributions - members	454,770	280,133	7,205
Net investment income	727,858	405,846	33,035
Benefit payments, including refunds and administrative expenses	(1,973,827)	(1,182,886)	(120,006)
Net Change in Plan Fiduciary Net Position	272,564	146,312	(3,710)
Plan fiduciary net position - beginning of year	27,491,055	15,365,014	1,306,547
Plan fiduciary net position - end of year (b)	$ 27,763,619	$ 15,511,326	$ 1,302,837
Employer net pension liability (a) - (b)	$ 11,475,420	$ 7,897,153	$ 808,269

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.*

AND PENSION SYSTEM

EMPLOYERS' NET PENSION LIABILITY

June 30, 2015

Judges' Retirement System	Law Enforcement Officers' Pension System	Total
$ 16,306	$ 33,934	$ 1,325,923
34,735	93,085	4,750,786
-	-	-
(843)	(5,846)	(512,982)
27,072	11,471	1,253,901
(28,899)	(55,884)	(3,332,795)
48,371	76,760	3,484,833
460,230	1,227,567	63,086,719
$ 508,601	$ 1,304,327	$ 66,571,552
$ 19,028	$ 56,546	$ 1,858,612
2,813	10,523	755,444
10,759	20,173	1,197,671
(28,945)	(56,211)	(3,361,875)
3,655	31,031	449,852
408,883	768,489	45,339,988
$ 412,538	$ 799,520	$ 45,789,840
$ 96,063	$ 504,807	$ 20,781,712

REQUIRED SUPPLEMENTARY INFORMATION

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	State Police Retirement System
Total pension liability			
Service cost	$ 796,354	$ 469,747	$ 28,508
Interest	2,694,942	1,597,397	141,875
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	182,000	86,638	33,418
Benefit payments, including refunds of employee contributions	(1,878,801)	(1,121,293)	(109,964)
Net change in total pension liability	1,794,495	1,032,489	93,837
Total pension liability, beginning of year	35,530,441	21,065,159	1,882,501
Total pension liability, end of year (a)	$ 37,324,936	$ 22,097,648	$ 1,976,338
Plan fiduciary net position			
Contributions - employer	$ 1,000,193	$ 592,185	$ 56,243
Contributions - members	441,559	267,139	6,592
Net investment income	3,458,512	1,940,319	165,097
Benefit payments, including refunds and administrative expenses	(1,878,801)	(1,121,293)	(109,964)
Other	(33)	(210)	16
Net Change in Plan Fiduciary Net Position	3,021,430	1,678,140	117,984
Plan fiduciary net position - beginning of year	24,469,625	13,686,874	1,188,563
Plan fiduciary net position - end of year (b)	$ 27,491,055	$ 15,365,014	$ 1,306,547
Employer net pension liability (a) - (b)	$ 9,833,881	$ 6,732,634	$ 669,791

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.*

AND PENSION SYSTEM

EMPLOYERS' NET PENSION LIABILITY

June 30, 2014

Judges' Retirement System	Law Enforcement Officers' Pension System	Total
$ 15,309	$ 31,927	$ 1,341,845
33,337	87,207	4,554,758
-	-	-
		-
-	-	-
46	18,798	320,900
(27,298)	(53,519)	(3,190,875)
21,394	84,413	3,026,628
438,836	1,143,154	60,060,091
$ 460,230	$ 1,227,567	$ 63,086,719
$ 21,110	$ 63,922	$ 1,733,653
2,566	9,870	727,726
50,173	92,166	5,706,267
(27,298)	(53,519)	(3,190,875)
-	227	-
46,551	112,666	4,976,771
362,332	655,823	40,363,217
$ 408,883	$ 768,489	$ 45,339,988
$ 51,347	$ 459,078	$ 17,746,731

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

for the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Total pension liability	$ 39,239,039	$ 23,408,479	$ 2,111,106	$ 508,601	$ 1,304,327	$ 66,571,552
Plan fiduciary net position	(27,763,619)	(15,511,326)	(1,302,837)	(412,538)	(799,520)	(45,789,840)
Employer net pension liability	$ 11,475,420	$ 7,897,153	$ 808,269	$ 96,063	$ 504,807	$ 20,781,712
Plan fiduciary net position as a percentage of the total pension liability	70.76%	66.26%	61.71%	81.11%	61.30%	68.78%
Covered employee payroll	$ 6,470,706	$ 4,305,637	$ 91,050	$ 44,613	$ 151,955	$ 11,063,961
Employer net pension liability as a percent of covered-employee payroll	177.34%	183.41%	887.72%	215.33%	332.21%	187.83%

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

for the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Total pension liability	$ 37,324,936	$ 22,097,648	$ 1,976,338	$ 460,230	$ 1,227,567	$ 63,086,719
Plan fiduciary net position	(27,491,055)	(15,365,014)	(1,306,547)	(408,883)	(768,489)	(45,339,988)
Employer net pension liability	$ 9,833,881	$ 6,732,634	$ 669,791	$ 51,347	$ 459,078	$ 17,746,731
Plan fiduciary net position as a percentage of the total pension liability	73.65%	69.53%	66.11%	88.84%	62.60%	71.87%
Covered employee payroll	$ 6,310,253	$ 4,219,732	$ 85,660	$ 42,313	$ 145,673	$ 10,803,631
Employer net pension liability as a percent of covered-employee payroll	155.84%	159.55%	781.92%	121.35%	315.14%	164.27%

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS AND RELATED RATIOS

for the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Actuarially determined contribution	$ 1,189,318	$ 766,782	$ 76,056	$ 19,028	$ 56,546	$ 2,107,730
Actual contribution	(1,063,763)	(643,219)	(76,056)	(19,028)	(56,546)	(1,858,612)
Contribution deficiency (excess)	$ 125,555	$ 123,563	$ -	$ -	$ -	$ 249,118
Covered employee payroll	$ 6,470,706	$ 4,305,637	$ 91,050	$ 44,613	$ 151,955	$ 11,063,961
Actual contribution as a percent of covered payroll	16.44%	14.94%	83.53%	42.65%	37.21%	16.80%

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS AND RELATED RATIOS

for the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System	Total
Actuarially determined contribution	$ 1,358,991	$ 812,643	$ 64,325	$ 21,110	$ 63,922	$ 2,320,991
Actual contribution	(1,000,193)	(592,185)	(56,243)	(21,110)	(63,922)	(1,733,653)
Contribution deficiency (excess)	$ 358,798	$ 220,458	$ 8,082	$ -	$ -	$ 587,338
Covered employee payroll	$ 6,310,253	$ 4,219,732	$ 85,660	$ 42,313	$ 145,673	$ 10,803,631
Actual contribution as a percent of covered payroll	15.85%	14.03%	65.66%	49.89%	43.88%	16.05%

SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ended	Annual money-weighted rate of return, net of investment expenses
2014	14.38%
2015	2.68%

**These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.*

***This disclosure is intended to capture performance net of pension plan investment expense, which has been adjusted for changing amounts actually invested; taking into consideration benefit payments and contributions. Currently, the Agency is experiencing net outflows resulting in contributions being used to pay benefits rather than flowing through invested funds; therefore, there is minimal variation between this schedule and the time-weighted rates of return presented in the Investment Section of this report.*

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes in Benefit Terms
There were no benefit changes during the year.

Changes in Assumptions
Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.70%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial Entry	Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2012 actuarial valuation: eight years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000 and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 25 years for the State Systems, 26 years for LEOPS Muni, and 32 years for CORS Muni. For ECS Muni: seven years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL.
Asset Valuation Method	Five-year smoothed market; 20% collar.
Inflation	In the 2012 actuarial valuation, 3.00% general, 3.50% wage. In the 2013 actuarial valuation, 2.95% general, 3.45% wage.
Salary Increases	In the 2012 actuarial valuation, 3.50% to 10.75% including inflation. In the 2013 actuarial valuation, 3.45% to 10.70% including inflation.
Investment Rate of Return	In the 2012 actuarial valuation, 7.75%. In the 2013 actuarial valuation, 7.70%.
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

OTHER 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]
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	18,444,602	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%
2013	39,350,969	60,060,091	20,709,122	65.52%	10,478,800	198%
2014	42,996,957	62,610,194	19,613,237	68.67%	10,803,632	182%
2015	46,170,624	66,281,781	20,111,157	69.66%	11,063,961	182%

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITY

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2006	$ 874,079	82% *
2007	1,025,972	81%
2008	1,183,765	89%
2009	1,313,560	84%
2010	1,519,980	86%
2011	2,035,401	74%
2012	2,146,624	71%
2013	2,149,985	76%
2014	2,320,991	75%
2015	2,107,730	88%

* Implementation of the statutory corridor funding method in fiscal year 2003 set the contribution 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 of the System's administrative and investment management expenses are recorded in the Expense Fund. During the year, the System's investment expenses are covered by funds transferred from the Accumulation Fund and the System's administrative expenses are covered by administrative fees assessed and collected in to the Expense Fund from each participating employer to cover annual operating and administrative expenses of the System.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2015 (with Comparative 2014 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2015	Totals 2014
Fund Balances, Beginning of Year	$ 5,864,301	$ 39,472,401	$ $ 3,286	$ 45,339,988	$ 40,363,217
Additions					
Net investment income (loss)	-	1,544,751	(347,080)	1,197,671	5,706,267
Contributions (Note 5):					
Employers	-	1,099,810	28,078	1,127,888	1,016,653
Members	755,444	-	-	755,444	727,726
State contributions on behalf of local governments	-	728,931	-	728,931	714,974
Contribution interest	-	1,793	-	1,793	2,026
Deductions					
Benefit payments	-	(3,284,550)	-	(3,284,550)	(3,121,823)
Refunds (Note 7)	(48,245)	-	-	(48,245)	(42,922)
Administrative expenses (Note 2)	-	27	(29,107)	(29,080)	(26,130)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	288,639	(288,639)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(379,945)	379,945	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(347,080)	347,080	-	-
Net changes in fund balances	615,893	(165,012)	(1,029)	449,852	4,976,771
Fund Balances, End of Year	$ 6,480,194	$ 39,307,389	$ $ 2,257	$ 45,789,840	$ 45,339,988

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2015 and 2014

(Expressed in Thousands)

	2015	2014
Personnel services		
Staff salaries	**$12,999**	$12,172
Fringe benefits	**5,552**	4,786
Total personnel services	**18,551**	16,958
Professional and contractual services		
Actuarial	**472**	375
Legal and financial	**1,878**	1,733
Consulting services	**858**	1,007
Data processing	**1,379**	1,449
Other contractual services	**1,565**	838
Total professional and contractual services	**6,152**	5,402
Miscellaneous		
Communications	**834**	538
Rent	**1,431**	1,740
Equipment and supplies	**994**	385
Other	**1,118**	1,107
Total miscellaneous	**4,377**	3,770
Total Administrative Expenses	**$29,080**	$26,130

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF INVESTMENT EXPENSES

for the Fiscal Years Ended June 30, 2015 and 2014

(Expressed in Thousands)

	Management Fees for 2015	Incentive Fees for 2015	Total
Investment advisors			
Public equity	**$ 73,832**	**$ 21,764**	**$ 95,596**
Fixed income	**10,710**	**-**	**10,710**
Credit opportunity	**40,080**	**12,259**	**52,339**
Real return	**26,151**	**7,623**	**33,774**
Absolute return	**43,006**	**15,192**	**58,198**
Private equity	**62,374**	**-**	**62,374**
Real estate	**25,045**	**1,159**	**26,204**
Total investment advisory fees	**281,198**	**57,997**	**339,195**
Other investment service fees			
Currency overlay	**5,034**	**-**	**5,034**
Other investment expenses	**2,851**	**-**	**2,851**
Total other investment service fees	**7,885**	**-**	**7,885**
Total Investment Expenses	**$ 289,083**	**$ 57,997**	**$347,080**

	Management Fees for 2014	Incentive Fees for 2014	Total
Investment advisors			
Public equity	$69,242	$30,103	$99,345
Fixed income	11,781	-	11,781
Credit Opportunity	40,020	22,836	62,856
Real Return	25,286	1,066	26,352
Absolute Return	30,138	3,008	33,146
Private Equity	59,124	-	59,124
Real Estate	26,311	2	26,313
Total investment advisory fees	261,902	57,015	318,917
Other investment service fees			
Currency overlay	6,943	-	6,943
Other investment expenses	3,739	-	3,739
Total other investment service fees	10,682	-	10,682
Total Investment Expenses	$272,584	$57,015	$329,599

MARYLAND STATE RETIREMENT

SCHEDULE OF PLAN NET

as of June 30, 2015

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System
Assets:			
Cash & cash equivalents (note 3)	$ 607,530	$ 467,710	$ 45,497
Receivables:			
Contributions:			
Employers	10,219	19,548	4,039
Employers - Long Term (Note 5)	-	31,254	-
Members	1,334	9,595	280
Accrued investment income	128,043	72,379	6,462
Investment sales proceeds	474,358	268,009	23,304
Due from other systems	-	806	-
Total receivables	613,954	401,591	34,085
Investments, at fair value (Notes 2 & 3)			
U.S. Government obligations	2,753,479	1,519,678	127,168
Domestic corporate obligations	2,245,937	1,239,560	103,727
International obligations	554,724	306,159	25,620
Domestic stocks	5,158,996	2,847,313	238,265
International stocks	4,759,778	2,626,979	219,827
Mortgages & mortgage related securities	1,154,536	637,204	53,320
Alternative investments	10,738,118	5,926,498 4	95,935
Collateral for loaned securities	982,860	344,556	(10,052)
Total investments	28,348,428	15,447,947	1,253,810
Total assets	29,569,912	16,317,248	1,333,392
Liabilities:			
Accounts payable & accrued expenses	37,987	19,923	1,796
Investment commitments payable	784,752	441,541	38,788
Obligation for collateral for loaned securities	982,860	344,556	(10,052)
Due to other systems	385	437	23
Total liabilities	1,805,984	806,457	30,555
Net position held in trust for pension benefits	$ 27,763,928	$ 15,510,791	$ 1,302,837

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

AND PENSION SYSTEM

POSITION BY SYSTEM

Judges' Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ (18,751)	$ 32,350	$ 1,134,336	$ -	$ 1,134,336
(334)	2,140	35,612	-	35,612
-	-	31,254	-	31,254
3,314	11,526	-	11,526	
1,886	3,344	212,114	-	212,114
6,922	11,962	784,555	-	784,555
-	149	955	(955)	-
8,477	17,909	1,076,016	(955)	1,075,061
43,737	77,481	4,521,543	-	4,521,543
35,675	63,199	3,688,098	-	3,688,098
8,811	15,610	910,924	-	910,924
81,947	145,171	8,471,692	-	8,471,692
75,606	133,937	7,816,127	-	7,816,127
18,340	32,487	1,895,887	-	1,895,887
170,568	302,164	17,633,283	-	17,633,283
9,854	16,271	1,343,489	-	1,343,489
444,538	786,320	46,281,043	-	46,281,043
434,264	836,579	48,491,395	(955)	48,490,440
659	907	61,272	-	61,272
11,218	19,540	1,295,839	-	1,295,839
9,854	16,271	1,343,489	-	1,343,489
1	109	955	(955)	-
21,732	36,827	2,701,555	(955)	2,700,600
$ 412,532	$ 799,752	$ 45,789,840	$ -	$ 45,789,840

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	State Police Retirement System
Additions:			
Contributions			
Employers	$ 334,832	$ 641,426	$ 76,056
Members	454,770	280,133	7,205
State contributions on behalf of local governments	728,931	-	-
Contribution interest	-	1,793	-
Total Contributions	1,518,533	923,352	83,261
Investment Income			
Net (depreciation) in fair value of investments	(76,618)	(42,922)	(3,839)
Interest	146,950	82,504	6,835
Dividends	861,291	482,776	39,991
Income Before Securities Lending Activity	931,623	522,358	42,987
Gross income from securities lending activity:	5,835	3,285	245
Securities lending borrower rebates	(224)	(148)	(8)
Securities lending agent fees	(880)	(480)	(38)
Net income from securities lending activity	4,731	2,657	199
Total Investment Income	936,354	525,015	43,186
Less investment expenses:			
Investment advisory fees	(208,496)	(119,169)	(10,151)
Net investment income	727,858	405,846	33,035
Transfers from other systems	-	-	-
Total Additions	2,246,391	1,329,198	116,296
Deductions:			
Benefit payments	1,933,456	1,147,453	119,468
Refunds (Note 7)	24,636	22,663	336
Administrative expenses (Note 2)	15,735	12,770	202
Transfers to other systems	(309)	535	-
Total Deductions	1,973,518	1,183,421	120,006
Net increase in plan assets	272,873	145,777	(3,710)
Net Position Held in Trust for Pension Benefits:			
Beginning of the fiscal year	27,491,055	15,365,014	1,306,547
End of the Fiscal Year	$ 27,763,928	$ 15,510,791	$ 1,302,837

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

AND PENSION SYSTEM

PLAN NET POSITION BY SYSTEM

June 30, 2015

Judges' Retirement System	Law Enforcement Officers' Pension System	Total
$ 19,028	$ 56,546	$ 1,127,888
2,813	10,523	755,444
-	-	728,931
-	-	1,793
21,841	67,069	2,614,056
(1,124)	(2,166)	(126,669)
2,155	4,167	242,611
12,686	24,243	1,420,987
13,717	26,244	1,536,929
91	200	9,656
(2)	(8)	(390)
(15)	(31)	(1,444)
74	161	7,822
13,791	26,405	1,544,751
(3,032)	(6,232)	(347,080)
10,759	20,173	1,197,671
-	-	-
32,600	87,242	3,811,727
28,874	55,299	3,284,550
25	585	48,245
46	327	29,080
6	(232)	-
28,951	55,979	3,361,875
3,649	31,263	449,852
408,883	768,489	45,339,988
$ 412,532	$ 799,752	$ 45,789,840

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