



MARYLAND  
STATE RETIREMENT  
*and* PENSION SYSTEM

# Annual Comprehensive Financial Report

**Maryland State Retirement and Pension System**  
A Pension Trust Fund of the State of Maryland  
For the Years Ended June 30, 2022 and 2021

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2022

## MISSION STATEMENT

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

- To prudently invest System assets in a well diversified manner to optimize long-term returns, while controlling risk through excellence in execution of the investment objectives and strategies of the System.
- To effectively communicate with all retirement plan participants to inform them about the benefits provided by the System, and to educate them about planning and preparing for all aspects of their future retirement.
- To accurately and timely pay retirement allowances provided by State pension law to the System's retirees and their beneficiaries.
- To implement an automated, comprehensive and integrated pension administration and electronic document management system.
- To efficiently collect the required employer and members contributions necessary to fund the System.

# Annual Comprehensive Financial Report Maryland State Retirement and Pension System



A Pension Trust Fund of the State of Maryland

For the Fiscal Years Ended June 30, 2022 and 2021

*Prepared by:*

Maryland State Retirement Agency  
120 East Baltimore Street  
Baltimore, Maryland 21202

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STATE RETIREMENT AGENCY  
120 East Baltimore Street  
Baltimore, MD 21202-6700

MARYLAND  
STATE RETIREMENT  
and PENSION SYSTEM

410-625-5555 • 1-800-492-5909  
TTY Users: call via Maryland Relay  
sra.maryland.gov

December 15, 2022

Dear Members, Retirees and Beneficiaries:

On behalf of the Board of Trustees, we are pleased to present the Annual Comprehensive Financial Report of the Maryland State Retirement and Pension System for the fiscal year that ended June 30, 2022. This report provides information on the financial status of the System during a period when it issued approximately \$374 million in average monthly payments to more than 172,000 retirees and beneficiaries.

The System generated a modestly negative return of -2.97%, net of fees, for the fiscal year ending June 30, 2022, beating its policy benchmark of -3.48%. The policy benchmark is a standard for comparing a portfolio's performance in the market from which the manager selects securities. The System's diversified and risk-balanced asset allocation, designed to weather extremes in market volatility, performed significantly better than a traditional 60/40 allocation to publicly traded stocks and bonds, saving more than \$5 billion on its investments for the fiscal year that ended June 30, 2022.

The fiscal year 2022 returns reflect the impact of the ongoing volatility of global financial markets impacted by inflation, rising interest rates, the COVID-19 pandemic, and the war in Ukraine. Recent market activity has been marked by a reversal in the long-term relationship between stocks and bonds. Typically, bond returns have provided a cushion to offset weak stock performance. In fiscal year 2022, stocks and bonds were both down more than ten percent.

While the focus will typically be on investment returns, the Board recognizes that the management of risk is equally important in the investment of plan assets. History has shown that returns will vary from year to year, at times by wide margins. The Board has adopted investment policies designed to minimize the downside impact of such volatility on the value of System assets, while still capturing significant value when markets are strong.

Reforms enacted by the Maryland General Assembly in 2011 and in subsequent years continue to show positive results for the System and continue to match or, in fact, exceed projections made at the time of the reforms. Required employer contributions for the coming fiscal year of 2023 are projected to be 18.07% of payroll, significantly lower than the 20.15% predicted at the time of the 2011 reforms. As of June 30, 2022, the System's funded ratio is 77.2%, slightly lower than the 77.3% predicted at the same time, but higher than the 76.9% reported last year. The System continues to remain on track to be 80% funded by 2026; 85% funded by 2030; and 100% funded by 2039.

Your Retirement System remains administratively and financially sound. As a participant in the System, you can remain confident that your pension benefits are secure. As always, your commitment to and involvement in the concerns of the System are greatly appreciated. We value your input—this is your System. If you have any questions, please do not hesitate to contact us.

Sincerely,

PETER FRANCHOT  
*Chair*

DERECK E. DAVIS  
*Vice Chair*

**BOARD OF TRUSTEES**

Peter Franchot, *Chair*  
Linda Vaughn Allen  
Thomas M. Brandt  
David R. Brinkley

Jamaal R. A. Craddock  
James P. Daly, Jr.

Kenneth B. Haines  
Sheila Hill  
Michael J. Howard

Richard E. Norman  
Douglas Prouty

Dereck E. Davis, *Vice-Chair*  
Robert F. Sandlass, Jr.  
Michael J. Stafford, Jr.  
Matthew Wyskiel

Martin Noven, *Secretary to the Board*



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120 East Baltimore Street  
Baltimore, MD 21202-6700

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## **LETTER OF TRANSMITTAL**

December 15, 2022

We are pleased to submit the Annual Comprehensive Financial Report for the Maryland State Retirement and Pension System for the fiscal year ended June 30, 2022. We believe this report fairly presents the operating results achieved during this 12-month reporting period.

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

The System currently provides monthly allowances to more than 172,000 retirees and beneficiaries and is an essential element of the future financial security for more than 194,000 active participating members. Descriptions of the membership requirements and benefits provided by each plan administered by the System are included in the Plan Summary Section starting on page 140.

This Annual Comprehensive Financial Report contains six sections. The Introductory Section provides information about the administrative structure of the System. The Financial Section provides a comprehensive review of the System's financial position, the results of its operations and its funded status. It also contains the report from the System's independent auditor, the combined financial statements, and supplementary financial data. The Investment Section includes a report highlighting the System's investment performance in addition to various summary level portfolio compositions and other investment data. The Actuarial Section contains the independent actuary's report on the results of the System's annual actuarial valuation. The Statistical and Plan Summary Sections provide demographic composition of the System's membership segments affected by each plan and detailed descriptions of the various plans' provisions. In addition to this Letter of Transmittal, additional narrative, overview, and analysis can be found in Management's Discussion and Analysis beginning on page 18.

### **INVESTMENTS**

The System's investment portfolio returned -2.97 percent on investments, net of fees, for the fiscal year 2022 relative to the System's 6.80 percent assumed actuarial return rate and the plan's policy benchmark of -3.48 percent. After the payment of benefits, the fair value of Fiduciary Net Position decreased by \$3.3 billion from \$67.6 billion on June 30, 2021 to \$64.3 billion on June 30, 2022.

The System's long-term target strategic asset allocation is comprised of 34 percent public equities, 21 percent rate sensitive assets, 16 percent private equities, 8 percent credit/debt strategies, 15 percent real assets, and 6 percent absolute return. The System's portfolio is balanced across several asset and sub-asset classes and is globally diversified. This, coupled with a long-term investment horizon, provides the System with greater protection during short-term market volatility.

## FINANCIAL REPORT CONTENT AND STRUCTURE

This annual report is designed to comply with the reporting requirements of GASB and in accordance with the Governmental Accounting Standards Best Practices. The responsibility for the accuracy of the data presented here, as well as the completeness and fairness of the presentation, rests with the Maryland State Retirement and Pension System (MSRPS) management. Management is responsible for the contents of the annual comprehensive financial report and for the internal accounting controls designed to provide reasonable assurance for the safeguarding of assets and the reliability of financial records. The concept of reasonable assurance recognizes the relationship between the cost of a control and the benefit likely to be derived, based on the judgment of management.

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

Management has established a comprehensive internal control framework designed to protect assets from loss and to compile adequate reliable information for the preparation of the System financial statements in conformity with generally accepted accounting principles. Management has committed the resources necessary to maintain an internal control structure that provides reasonable assurance that assets are adequately safeguarded, financial records are consistently and accurately maintained, and transactions are properly executed to permit preparation of financial statements in accordance with generally accepted accounting principles. The System's internal control structure includes written policies and procedures and an internal audit division that reports to the Board.

Effective internal controls can only provide a reasonable assurance with respect to financial statement preparation and thus, may not prevent or detect misstatements. The System's external auditors, CliftonLarsonAllen LLP, conducted an independent audit of the financial statements in accordance with U.S. generally accepted government auditing standards. This audit and the financial statements are described in the Financial Section, beginning on page 15.

## REVENUES

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2022, investment earnings were -\$1.4 billion, while revenues from employer and member contributions were \$2.28 billion and \$894.3 million, respectively. For fiscal year 2022, member contribution rates on average were seven percent, while employer rates varied depending on the System.

## EXPENSES

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members, withdrawing employers, and the administrative cost of System operations. Payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during FY 2022, totaling \$4.4 billion. In addition, the System disbursed \$607.0 million to manage the investment portfolio and to administer the System, of which \$565.0 million was paid for investment management, portfolio custody, and securities lending services and \$42.0 million was used to fund the System's administrative operations.

## FUNDING

Funds are derived from the excess of additions, which include contributions and investment earnings, over deductions, which are comprised of benefits and administrative expenses. Funds are accumulated to meet future benefit obligations to retirees and beneficiaries. This accumulated balance is referred to as the "net assets held in trust for pension benefits" in the Statement of Pension Net Assets in the Financial Section of this report. The actuarial accrued liability is not disclosed in the basic financial statement but is disclosed in note nine to the basic financial statements. The funded status schedule presented in note nine shows the actuarial value of assets, which is based on a five-year smoothed expected rate of return, wherein the excess or shortfall of investment income over or under the actuarial assumed income of 6.80 percent is recognized over a five-year period. This is the value of assets used by the actuary in determining contribution rates for the Systems as disclosed in note five to the basic financial statements.

The actuarial accrued liability of the Systems is also determined by the actuary. It is a measure of the present value of actuarial accrued liabilities estimated to be payable in the future to current retirees, beneficiaries and employees for service earned to date. The percentage computed by dividing the actuarial value of net assets available for benefits by the actuarial accrued liability



is generally referred to as the “funded ratio.” This ratio provides an indication of the funded status of the System on a going-concern basis and generally, the greater this percentage, the stronger the System. The System’s funded ratio decreased from 76.8 percent at June 30, 2021 to 76.6 percent at June 30, 2022.

At June 30, 2022 the System’s actuarial accrued assets and liability were \$62.8 billion and \$81.7 billion, respectively. The unfunded actuarial accrued liability totaled \$20.2 billion, resulting in a funded status ratio of 73.6 percent. The unfunded actuarial accrued liability is being amortized over a closed 25-year period.

### PROFESSIONAL SERVICES

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board of Trustees in carrying out its fiduciary responsibility to manage the System efficiently and effectively. Actuarial services were provided by Gabriel Roeder Smith & Company and independent financial statement audit services were provided by SB & Company, LLC. The System’s asset custody and portfolio accounting services were provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. Meketa Investment Group, Inc. served as the System’s general investment consultant. Specialty consulting services were provided by Pavilion Alternatives Group, LLC for private equity and Townsend Holdings, LLC for real estate. Aksia, LLC advises staff on the retirement System’s Absolute Return portfolio. A complete listing of the System’s professional consultants and external investment advisors is presented on page 11.

### AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Maryland State Retirement and Pension System for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021. This was the thirty third consecutive year (1989 through 2021) that it has received this prestigious award. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additionally, the Maryland State Retirement and Pension System received the Public Pension Coordinating Council’s (PPCC) 2021 Recognition Award for meeting professional standards for plan funding and administration, as set forth in the Public Pension Standards.

The PPCC is a coalition of associations that represent public pension funds that cover most public employees in the U.S., including the National Association of State Retirement Administrators (NASRA), the National Council on Teacher Retirement (NCTR), and the National Conference on Public Employee Retirement Systems (NCPERS).

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

### ACKNOWLEDGMENTS

This annual report reflects the dedicated efforts of the System’s staff under the steady direction of the Board of Trustees. We extend our sincere gratitude to each member of the Board, the System’s staff, the Board’s advisors, and the many people who worked with diligence and dedication throughout fiscal year 2022. Special thanks go to the members of the Maryland State Retirement Agency’s senior executive team and the agency’s staff of professional and paraprofessionals who helped to gather and prepare the information for this report.



Martin Noven  
Executive Director  
Secretary to the Board



Melody Countess, CPA, CGMA  
Chief Operating Officer

BOARD OF TRUSTEES AS OF NOVEMBER 2022



PETER FRANCHOT, *Chair*  
State Comptroller  
Ex Officio since January 22, 2007  
Member, Investment Committee



DERECK E. DAVIS, *Vice Chair*  
State Treasurer  
Ex Officio since December 17, 2021  
Member, Administrative Committee  
Member, Investment Committee



LINDA VAUGHN ALLEN  
July 1, 2021 - June 30, 2026  
Member, Administrative Committee  
Member, Investment Committee



THOMAS M. BRANDT, JR.  
May 7, 2020 - July 31, 2023  
Vice Chairman, Audit Committee  
Member, Administrative Committee  
Member, Corporate Governance and  
Securities Litigation Committee



DAVID R. BRINKLEY  
Ex Officio since January 21, 2015  
Vice Chairman, Investment Committee  
Member, Administrative Committee  
Member, Corporate Governance and  
Securities Litigation Committee



JAMAAL R. A. CRADDOCK  
June 19, 2018 - July 31, 2025  
Member, Administrative Committee  
Member, Audit Committee



JAMES P. DALY, JR.  
September 11, 2020 - June 30, 2025  
Member, Corporate Governance and  
Securities Litigation Committee  
Member, Investment Committee



KENNETH B. HAINES  
August 1, 2019 - July 31, 2023  
Chairman, Administrative Committee  
Member, Audit Committee



SHEILA HILL  
August 1, 2015 - July 31, 2023  
Vice Chairman, Corporate Governance and  
Securities Litigation Committee  
Member, Investment Committee

BOARD OF TRUSTEES



**MICHAEL J. HOWARD**  
June 10, 2022 - June 30, 2023  
Member, Audit Committee  
Member, Corporate Governance and  
Securities Litigation Committee



**RICHARD E. NORMAN**  
August 1, 2014 - July 31, 2026  
Chairman, Audit Committee  
Vice Chairman, Administrative Committee  
Member, Investment Committee



**DOUGLAS PROUTY**  
August 1, 2017 - July 31, 2025  
Chairman, Corporate Governance and  
Securities Litigation Committee  
Member, Investment Committee



**ROBERT F. SANDLASS, JR.**  
June 10, 2022 - June 30, 2025  
Member, Administrative Committee  
Member, Audit Committee



**MICHAEL J. STAFFORD, JR.**  
October 26, 2017 - July 31, 2023  
Chairman, Investment Committee



**MATTHEW W. WYSKIEL**  
March 15, 2022 - July 31, 2024  
Member, Audit Committee  
Member, Corporate Governance and  
Securities Litigation Committee

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ADVISORS TO THE INVESTMENT COMMITTEE



**MICHAEL K. BARRY**  
JULY 1, 2016 - JUNE 30, 2025

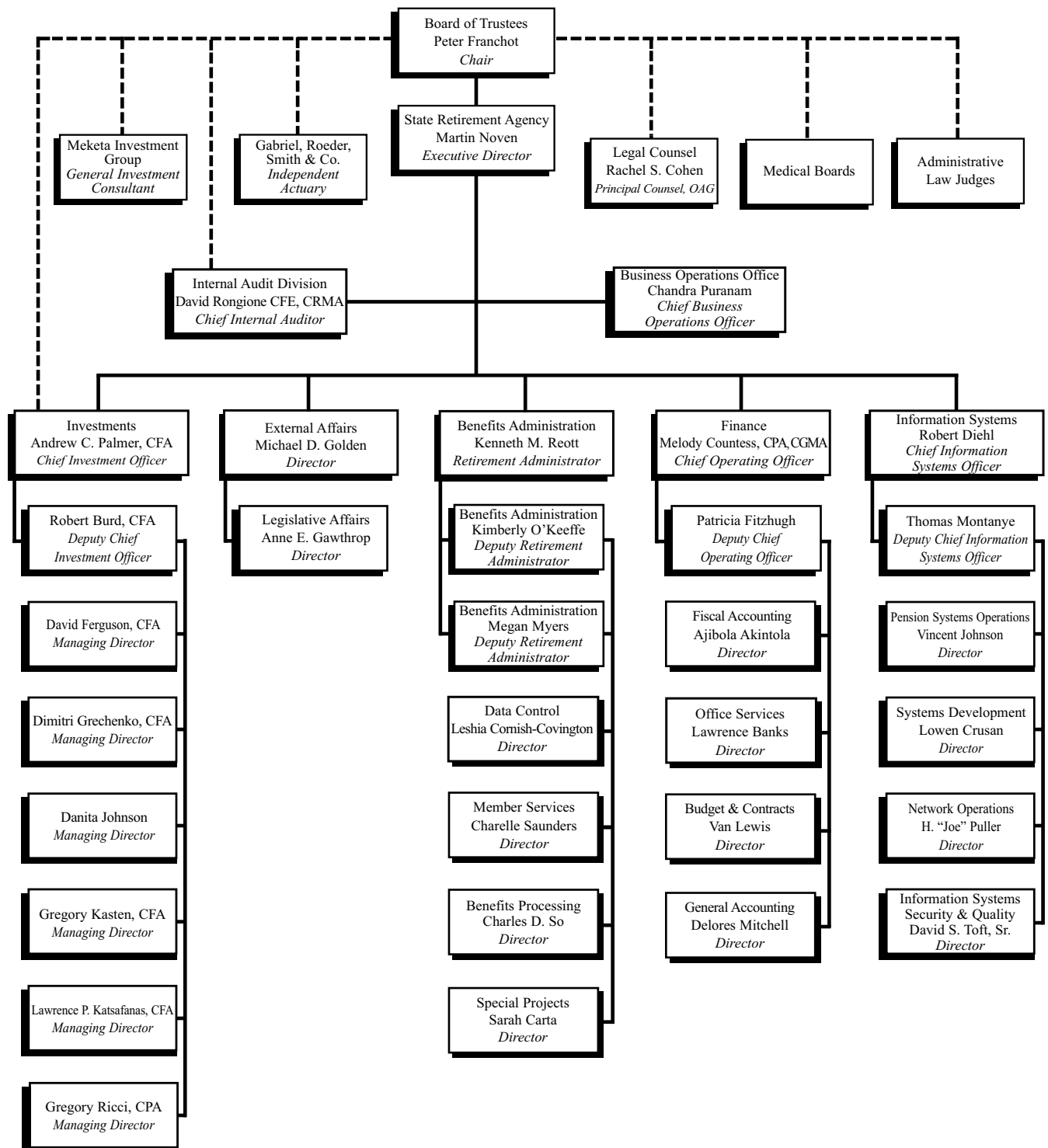


**ANNE L. SHELTON**  
JULY 1, 2020 - JUNE 30, 2023



**MONTE TARBOX**  
JULY 1, 2018 - JUNE 30, 2024





\*Additional information regarding investment professionals who provide services to the System can be found on pages 11, and 95-98.

PROFESSIONAL SERVICES

**Global Custodial Bank and Security Lending**

State Street Bank & Trust Company  
Boston, Massachusetts

Deutsche Bank  
New York, New York

**Hearing Officers**

Office of Administrative Hearings  
Baltimore, Maryland

**Independent Actuary**

Gabriel Roeder Smith & Co.  
Southfield, Michigan

**Independent Public Accountant**

Clifton Larson Allen  
Timonium, Maryland

**Independent Investment Consultants**

Hamilton Lane Advisors, LLC  
Bala Cynwyd, Pennsylvania

Meketa Investment Group, Inc.  
Westwood, Massachusetts

Townsend Holdings, LLC  
Cleveland, Ohio

Aksia, LLC  
New York, New York

**Operational Banking Services**

M & T Bank  
Baltimore, Maryland

The Harbor Bank of Maryland  
Baltimore, Maryland



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Maryland State Retirement and Pension System**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2021

*Christopher P. Morill*

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2022***

Presented to

**Maryland State Retirement and Pension System**

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive, flowing style.

Alan H. Winkle  
Program Administrator



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