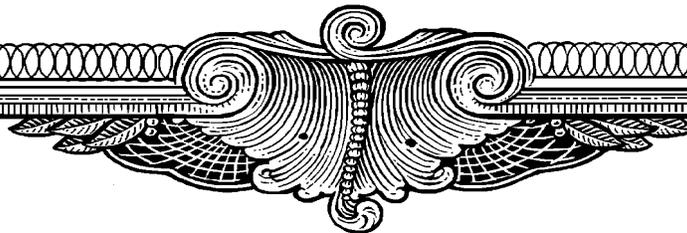


Mission Statement

The Board of Trustees of the State Retirement and Pension System of Maryland (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 member contributions necessary to fund the System.



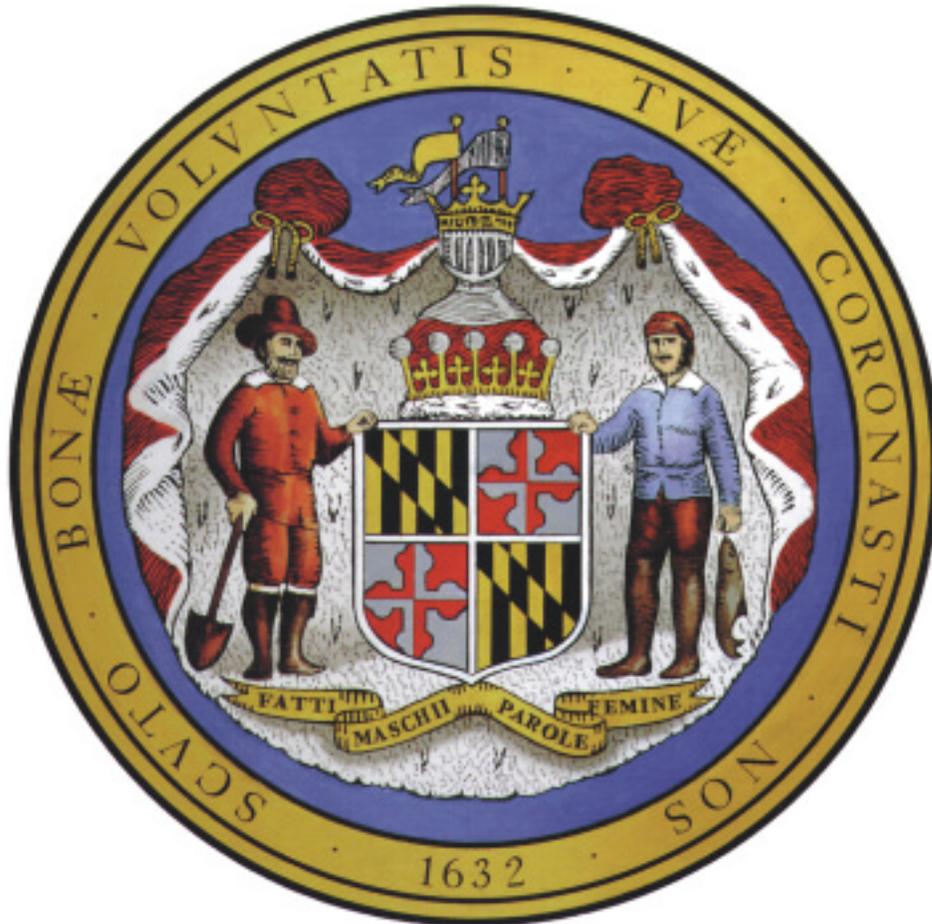
On the cover

THEN AND NOW — Twenty years ago, the State was facing a financial crisis with respect to financing its \$5 billion accumulated unfunded actuarial pension liability. In 1979, the General Assembly recognized this problem and enacted legislation to mandate a systematic funding program to amortize the System's liability over a 40-year period ending June 30, 2020. Through its consistent stewardship and execution of sound investment strategy, the Board of Trustees has liquidated the entire unfunded liability 20 years ahead of schedule. As a result, the Actuary has certified that the combined systems are fully funded at June 30, 2000, providing increased benefit security for all participants of the System.

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of Maryland



For the Year Ended June 30, 2000

prepared by:

State Retirement Agency of Maryland
120 E. Baltimore Street
Baltimore, Maryland 21202

We gratefully acknowledge the State Archives of the State of Maryland for their permission in reprinting the Great Seal of Maryland.

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STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATE RETIREMENT AGENCY

120 EAST BALTIMORE STREET
BALTIMORE, MARYLAND 21202
TELEPHONE: 410-625-5555
1-800-492-5909

PETER VAUGHN
EXECUTIVE DIRECTOR
SECRETARY TO THE BOARD



BOARD OF TRUSTEES

RICHARD N. DIXON
CHAIRMAN

William Donald Schaefer
Vice Chairman

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William D. Brown
Arthur N. Caple, Jr.
Frank P. Casula
T. Eloise Foster
Dr. Nancy S. Grasmick
G. Bruce Harrison
Debra B. Humphries
Major Morris L. Krome
Carl D. Lancaster
Col. David B. Mitchell
George R. Tydings

December 15, 2000

Letter of Transmittal

Honorable Chairman & Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report for the State Retirement and Pension System of Maryland (the "System") for the fiscal year ended June 30, 2000. We believe this report fairly reflects the excellent results achieved during fiscal year 2000 through the collective efforts of the Board of Trustees and Agency staff to protect and enhance the System's assets.

The System is charged with the fiduciary responsibility for properly administering the retirement and pension allowances and other benefits, while striving to keep employer contribution rates as affordable as possible through excellence in executing the System's investment program. Members covered by the plans include State employees, teachers, law enforcement officers, legislators, judges, as well as local government employees and fire fighters whose employers have elected to participate in the System.

Seventy-three years ago, the first statewide retirement plan in Maryland (the Teachers' Retirement System) was established. Fourteen years later, in 1941, the Employees' Retirement System was established. Together these two plans comprise the majority of the System's membership. The System now provides monthly allowances to 80,773 retirees and beneficiaries, and is an essential element of the future financial security for 222,100 active participating members. Descriptions of the membership requirements of, and benefits provided by, each plan administered by the System are included in the Plan Summary Section starting on page 81.

This Comprehensive Annual Financial Report contains six sections. The Introductory Section includes this letter of transmittal, along with information about the administrative structure of the System. The Financial, Actuarial and Investment Sections provide a comprehensive review of the System's financial position, the results of its operations and its funded status.

Viewed separately, each of these three sections provides information about a different aspect of the System's long-standing record of stewardship and financial stability. In this regard, the Financial Section contains the report from the System's independent auditor, the financial statements and supplementary financial data. The Actuarial Section contains the independent actuary's certification, as well as the results of the System's annual actuarial valuation. The Investment Section includes a report from the System's Chief Investment Officer highlighting the past year's performance in addition to various summary level portfolio composition and performance data. The Plan Summary and Statistical Sections provide detailed descriptions of the various plans' provisions and the demographic composition of the membership segments affected by each plan.

Economic Environment

Despite a rather slow start early in fiscal year 2000, the financial markets recovered nicely to continue their record-setting growth throughout most of fiscal year 2000. The above average market growth during the past year is the primary reason for the success enjoyed by the System again this year in further reducing its unfunded actuarial liabilities. Consequently, as of June 30, 2000, the System as a whole is fully funded.

Investment Strategies

Under the experienced direction of its Board of Trustees, the System plans to continue following its steady course toward maximizing investment returns while minimizing its exposure to risk. In the months ahead, the System will continue to deploy assets at home as well as throughout the expanding global markets in an effort to maintain an appropriate portfolio balance.

Major Issues and Initiatives

For the first time in its 73 year history, the System reached full actuarial funding of its liabilities. Due to the Board's stewardship, the combined commitment of the Governor and the Maryland General Assembly to fund the required contributions, and the extraordinary gains in the equity markets, the System stood at 101.2% funded as of June 30, 2000. This is twenty years ahead of the legislative mandate of 2020 set by the General Assembly in 1980.

Anticipating that the System would become fully funded, the Board of Trustees directed the System's actuary to perform a funding study to review the current methodology and compare both traditional and non-traditional alternative strategies with the Board. The Board established three goals for the new funding methodology - maintain the funded status; achieve some level of surplus; and minimize contribution fluctuation. Based upon the Board's goals and the extensive testing of alternatives by the Actuary, the Board adopted a revised funding methodology for the System which will be presented in a legislative proposal in the 2001 session of the Maryland General Assembly.

In May 1998, the System signed a contract for the development and implementation of a fully integrated, state-of-the-art data processing and document management system. During fiscal year 2000, the system development project progressed into the code development and unit testing phases. With implementation and system integration expected to be completed by the end of calendar year 2001, the System should be well positioned to enter the 21st century as an industry leader.

The Retirement Agency recently completed a program to enable employers who participated in the System to report payroll data via diskette or internet. Previously, a substantial number of participating employers were reporting payroll on paper, requiring multiple entries and resulting in a substantial error rate in reporting. The Agency designed a user friendly uniform layout reporting disk for employers to utilize to report payroll data. Site visits, training and support were provided with an amazing success rate. The program saves time and effort for both the Agency and the employers.

The Agency successfully relocated its operations to 120 East Baltimore Street in January 2000. The building was purchased by the System in August 1999 as an investment as well as to accommodate the relocation. The move consolidated operations of the Agency into one building in an effort to increase efficiency and increase customer service.

House Bill 604 was signed into law by the Governor to enhance the pension benefits of eligible members of the Law Enforcement Officers' Pension System. The legislation improved the benefit formula to 2% of average final compensation, required a 4% member contribution, provided a compound rather than a simple COLA, revised the eligibility requirements for accidental disability benefits and created a deferred retirement option program (DROP) for eligible members. The modifications were effective July 1, 2000 except the DROP, which will take affect the first day of the month after the Agency receives a favorable determination letter from the IRS.

Financial Information

Because System management is responsible for the information contained in this report, we have committed the resources necessary to maintain an internal control structure which provides reasonable assurance that assets are adequately safeguarded and that the financial records are consistently and accurately maintained. Accordingly, we are confident that the financial statements, supporting schedules and statistical tables included in this report fairly present the System's financial condition and the results of its operations in all material respects.

Accounting System and Reports

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

Revenues

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2000, investment earnings totaled \$3,549 million, while revenues from employer and member contributions were \$682 million and \$183 million, respectively. For 2000, member contribution rates remained unchanged, while employer rates decreased significantly.

Expenses

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of System operations. As expected, payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during 2000, totaling \$1,208 million. Of this amount, the System disbursed \$1,191 million as retirement allowances to members and beneficiaries. The remaining \$17 million was paid to members and withdrawing employers as a result of employment terminations, system transfers or withdrawal. Administrative and investment expenses are entirely funded through investment income. Of the \$194.3 million disbursed during fiscal year 2000 to manage the investment portfolio and to administer the System, \$174.5 million was paid for investment management, portfolio custody and securities lending services while only \$19.8 million was used to fund the System's administrative operations.

Funding and Reserves

Funds, derived from the excess of revenues over expenses, are accumulated by the System in order to meet benefit obligations to both current and future retirees and beneficiaries. The Annotated Code of Maryland requires participating employers to make periodic contributions which, as a level percentage of payroll, will fund the employers' "normal costs" over the members' average active service period, and the System's accrued unfunded liability by the year 2020. Each year the Board of Trustees certifies the required employer contribution rates based on the actuary's annual valuation and recommendations.

At June 30, 2000, the System's actuarial accrued liability was \$30.3 billion. With the actuarial value of assets accumulated to pay the liability at \$30.6 billion, the System now stands at 101.2 percent funded. Fiscal year 2000 marked the ninth consecutive year in which the System increased its percentage funded, demonstrating its continuing commitment to meeting the established funding objectives.

Investments

Of the \$3,549 million in investment earnings for fiscal year 2000, nearly 78 percent (\$2,791 million) was attributable to growth in the investment portfolio. The remaining \$758 million represented interest, dividends, securities lending net income and real estate operating net income.

Professional Services

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board in carrying out its fiduciary responsibility to efficiently and effectively manage the System. For example, actuarial services were provided by Milliman & Robertson, Inc. and independent financial statement audit services were provided by the State of Maryland's Office of Legislative Audits. The System's asset custody and portfolio accounting services are provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. A complete listing of the System's professional consultants and external investment advisors is presented on page 11.

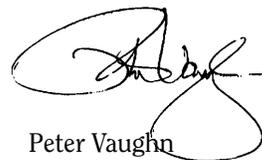
Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Retirement and Pension System of Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 1999. This was the eleventh consecutive year (1989 through 1999) the State Retirement and Pension System of Maryland has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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 of Trustees, the Agency's staff, the Board's advisors and the many people who worked so hard to make fiscal year 2000 a success.



Peter Vaughn
Executive Director &
Secretary to the Board



Ricky L. Harrison, CPA
Chief Financial Officer



Dear Members and Beneficiaries:

On behalf of the Board of Trustees, I am pleased to present the Comprehensive Annual Financial Report on the operations of the State Retirement and Pension System of Maryland for the fiscal year ended June 30, 2000. It was prepared and submitted by the management of the Retirement Agency and accepted by the Board of Trustees on December 19, 2000. The report is divided into several sections, providing an in-depth review of the financial, actuarial, investment and statistical operations of the System we administer for your exclusive benefit.

An historic event occurred during this fiscal year. For the first time in our 73-year history, the System accumulated sufficient assets to fully satisfy all actuarial liabilities of the System! As of June 30, 2000, the System became fully funded. We have paid off the unfunded System's liability 20 years ahead of the legislative mandate of 2020.

I would also like to share with you several other major accomplishments the System achieved during the year. Assets again reached a record level in fiscal year 2000, topping \$33.1 billion. This is \$3 billion higher than last year and more than double the assets the System had just seven years ago. The funding ratio of the combined Systems reached 101.2% at year-end, the highest funding level in the System's history. Because of this, we have been able to reduce employer contribution rates to historically low levels.

In September 1999, recognizing that we would become fully funded, the Board of Trustees authorized a comprehensive study of the funding methodology by our actuary. After several months of deliberations and testing of options, the Board approved a revised funding methodology proposal for submission to the Maryland General Assembly. If approved, the proposal's effect would be to minimize future contribution rate fluctuation, achieve some level of surplus assets and maintain the fully funded status.

As Chairman, I am very pleased that we have achieved this historic status. I will continue to utilize my investment expertise to recognize the long-term investment perspective we have and strive to allocate the System's investments in asset categories that produce added value in order to pay the promised benefits into this new millennium.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Richard N. Dixon', with a large, stylized initial 'R'.

Richard N. Dixon
State Treasurer
Chairman of the Board

Board of Trustees



**Richard N. Dixon, *Chairman*
State Treasurer**

Ex Officio since February 1, 1996
Member, Investment Committee
Member, Executive Committee



**William Donald Schaefer, *Vice Chairman*
State Comptroller**

Ex Officio since January 25, 1999
Member, Investment Committee
Member, Real Estate Subcommittee



Dr. Ali A. Alemi

August 1, 1999 – July 31, 2003
Member, Executive Committee
Member, Audit Committee



William D. Brown

August 1, 1997 – July 31, 2001
Chairman, Executive Committee
Chairman, Audit Committee



Arthur N. Caple, Jr.

August 1, 1985 – July 31, 2001
Chairman, Investment Committee



Frank P. Casula

February 14, 1986 – June 30, 2002
Chairman, Real Estate Subcommittee
Member, Investment Committee



T. Eloise Foster

Ex Officio since June 1, 2000
Member, Investment Committee
Member, Executive Committee



Dr. Nancy S. Grasmick

Ex Officio since September 16, 1991
Member, Executive Committee

Board of Trustees



G. Bruce Harrison

August 1, 1997 – July 31, 2001
Member, Investment Committee
Member, Audit Committee



Debra B. Humphries

July 1, 1997 – June 30, 2001
Member, Investment Committee



Major Morris L. Krome

August 1, 1998 – July 31, 2002
Vice Chairman, Executive Committee



Carl D. Lancaster

August 1, 1987 – July 31, 2003
Vice Chairman, Investment Committee
Member, Real Estate Subcommittee



Col. David B. Mitchell

Ex Officio since January 18, 1995
Member, Executive Committee



George R. Tydings

May 31, 1994 – June 30, 2003
Member, Investment Committee

Public Advisors to the Investment Committee



Robert W. Schaefer



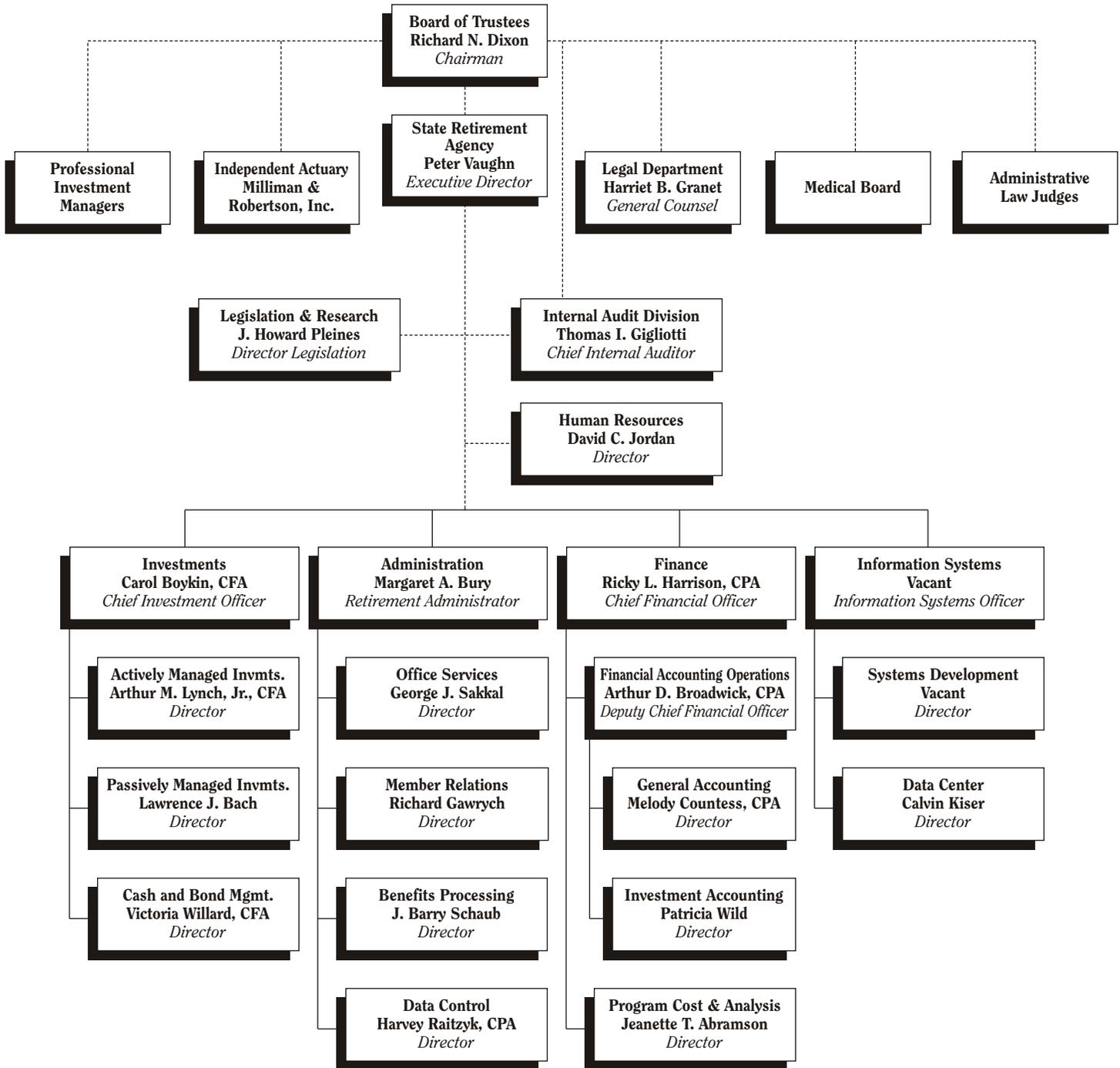
Wayne H. Shaner



Robert H. Patzwall, Jr.

Organizational Chart

(December, 2000)



Consulting, Professional and Investment Management Services

Equity Investment Managers

Abbott Capital Management, LLC
Boston, Massachusetts

Advent Capital Management
New York, New York

Bank of Ireland Asset Management Limited
Dublin, Ireland

Brinson Partners, Inc.
Chicago, Illinois

Brown Capital Management, Inc.
Baltimore, Maryland

Brown Investment Advisory &
Trust Company
Baltimore, Maryland

The Capital Group, Inc.
Los Angeles, California

Capital Guardian Trust Company
Washington, D.C.

Chapman Capital Management, Inc.
Baltimore, Maryland

Credit Suisse Asset Management, LLC
New York, New York

Dimensional Fund Advisors, Inc.
Santa Monica, California

The Edgar Lomax Company
Springfield, Virginia

GEM Capital Management, Inc.
New York, New York

Greenway Partners, L.P.
New York, New York

Harbor International Fund
Toledo, Ohio

Harbour Vest Partners, LLC
Boston, Massachusetts

J. & W. Seligman & Co., Inc.
New York, New York

Legg Mason Capital Management, Inc.
Baltimore, Maryland

Maryland Venture Capital Trust
Baltimore, Maryland

Relational Investors, LLC
San Diego, California

Robert E. Torray & Co., Inc.
Bethesda, Maryland

Scudder Kemper Investments, Inc.
New York, New York

State Street Global Advisors
Boston, Massachusetts

T. Rowe Price Associates, Inc.
Baltimore, Maryland

Templeton Investment Counsel, Inc.
Fort Lauderdale, Florida

Trust Company of the West
Los Angeles, California

Independent Actuary

Milliman & Robertson, Inc.
Baltimore, Maryland

Independent Auditor

Office of Legislative Audits
Baltimore, Maryland

Hearing Officers

Office of Administrative Hearings
Baltimore, Maryland

Medical Board

John J. Fahey, M.D.
Norman Freeman, Jr., M.D.
Arthur Hildreth, M.D.
Bruce Z. Kohn, M.D.
William B. Russell, M.D.
Claudia Thomas, M.D.
Alfred Wiedman, M.D.

Global Custodial Bank

State Street Bank and Trust Company
Boston, Massachusetts

Securities Lending

State Street Bank and Trust Company
Boston, Massachusetts

Asset & Income Verification Services

Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

Operational Banking Services

Allfirst Financial, Inc.
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

Fixed Income Investment Managers

Pacific Investment Management Company
Newport Beach, California

Standish, Ayer & Wood, Inc.
Boston, Massachusetts

W. R. Huff Asset Management Co., LLC
Morristown, New Jersey

Real Estate Investment Managers

AEW Capital Management, L.P.
Boston, Massachusetts

J.P. Morgan Investment Management, Inc.
New York, New York

LaSalle Investment Management, Inc.
Baltimore, Maryland

LaSalle Investment Management
Securities, L.P.
Baltimore, Maryland

Sentinel Real Estate Corporation
New York, New York

TimesSquare Real Estate Investors
Hartford, Connecticut

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Retirement and
Pension System of
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

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

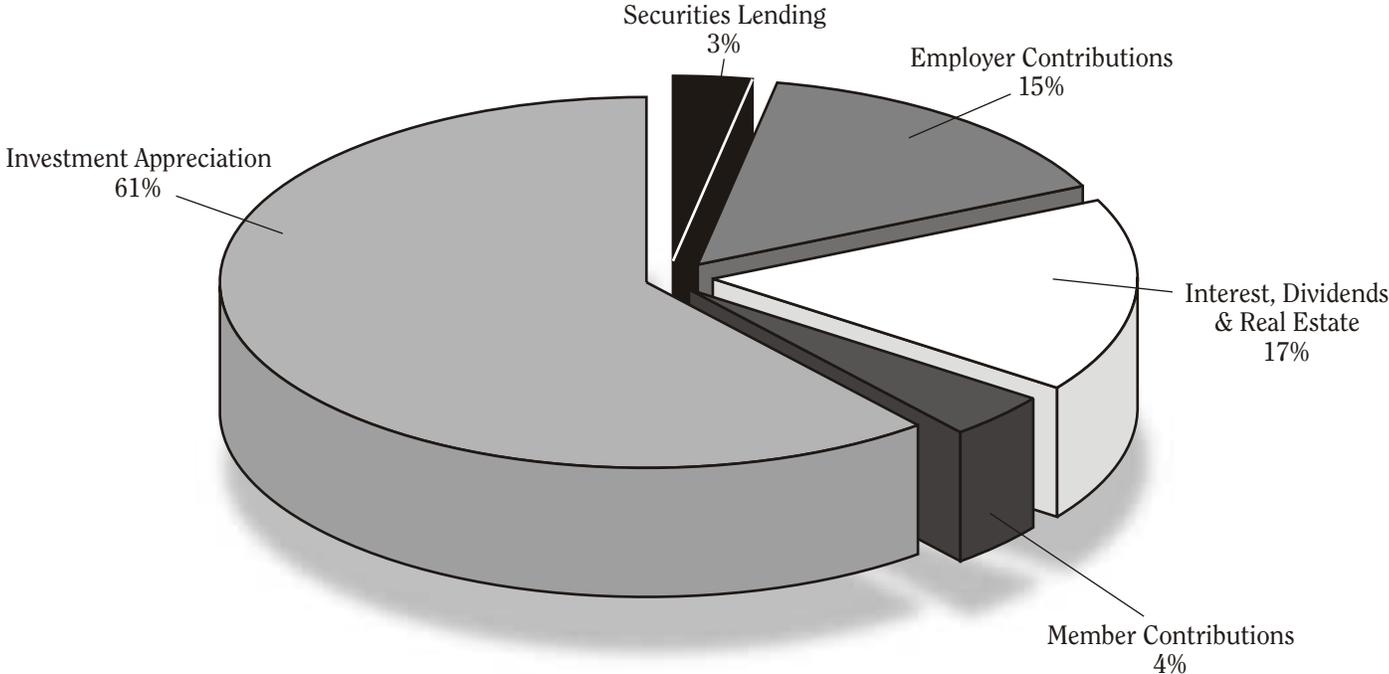



Cary Brueck
President

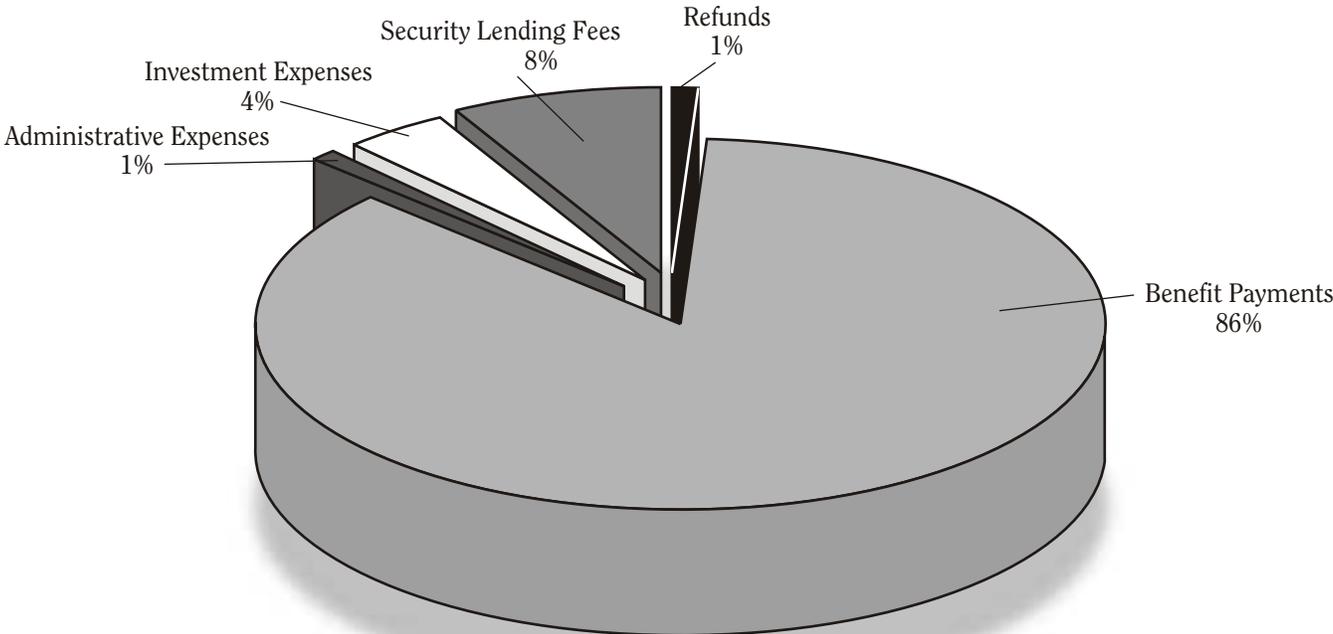

Jeffrey L. Esler
Executive Director

Sources and Uses of Plan Resources for the Year Ended June 30, 2000

Sources



Uses





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