SRPS

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

Comprehensive Annual Financial Report

Maryland State Retirement and Pension System
A Pension Trust Fund of the State of Maryland
For the Years Ended June 30, 2013 and 2012

2013

MISSION STATEMENT

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

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

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

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

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

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

Comprehensive Annual Financial Report

Maryland State Retirement and Pension System

SRPS

A Pension Trust Fund of the State of Maryland

For the Years Ended June 30, 2013 and 2012

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

Introductory Section:

Financial Section:

Investment Section:

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
TDD/TTY 410-625-5535
sra.maryland.gov

December 15, 2013

Dear Members, Retirees and Beneficiaries:

On behalf of the Board of Trustees, we are pleased to present the Comprehensive Annual Financial Report of the Maryland State Retirement and Pension System for the fiscal year ended June 30, 2013. This report provides information on the financial status of the retirement system and highlights important events that occurred during a period when the system issued monthly, on average, about $249 million in payments to nearly 138,000 retirees and beneficiaries.

Fiscal Year 2013 was a very strong year for investment returns as the system's portfolio returned 10.57%. This return exceeded both the actuarial return assumption for the fiscal year of 7.75% and the policy benchmark of 8.48% by significant margins. The policy benchmark can be thought of as the passive alternative to the system's asset allocation. Active management added value to the fund in the fiscal year, as well as over longer time periods. All of the system's asset classes experienced positive returns in the fiscal year, with the exception of the Real Return asset class, which struggled as inflation-sensitive assets were not in high demand by investors since inflation has been benign.

While we are pleased with the investment performance of the fund in fiscal year 2013, the board continues to focus on long-term performance. The capital markets are always going to experience volatility, which will result in good years and bad years. Being a long-term investor allows the system to weather some short-term volatility for long-term returns. Over the last 25 years—a period that has included two recessions, most notably the Great Recession—the system has earned an average return of 7.82%.

During its 2013 session, the General Assembly enacted legislation which will phase out the so-called "corridor funding" methodology, which the board has consistently opposed since it was enacted in 2002. This method of funding has been a significant contributor to the system's chronic underfunding over the last decade. The 2013 legislation will phase out use of the corridor method over the next ten years and return funding to the actuarially required contribution methodology. Following the pension reform measures passed during the 2011 General Assembly session, the board recognizes this funding change as another key ingredient that will lead the system to full funding by 2039.

In another significant move, the board decided to lower the system's assumed rate of return from 7.75% incrementally over the next four years to 7.55%. The board made the change in order to more accurately reflect the pension fund's expected long-term future investment gains. The decision was made following careful analysis, with significant input from the system's actuary and investment consultant. The assumed rate of return will be lowered 0.05% each fiscal year beginning with the July 2013 actuarial valuation.

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

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

Sincerely,

Nancy K. Kopp

NANCY K. KOPP
Chairman

Peter Franchot

PETER FRANCHOT
Vice Chairman

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and PENSION SYSTEM

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R. Dean Kenderdine
Executive Director
Secretary To The Board

LETTER OF TRANSMITTAL

December 15, 2013

Honorable Chairman and Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report for the Maryland State Retirement and Pension System for the fiscal year ended June 30, 2013. We believe this report fairly presents the operating results achieved during this 12-month reporting period.

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

The system currently provides monthly allowances to about 138,000 retirees and beneficiaries, and is an essential element of the future financial security for more than 192,000 active participating members. Descriptions of the membership requirements and benefits provided by each plan administered by the system are included in the Plan Summary Section starting on page 108.

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

INVESTMENTS

The system's investment portfolio returned 10.57 percent in fiscal year 2013. The fund achieved its 7.75% actuarial return target for the fiscal year, and also exceeded the plan policy benchmark of 8.48 percent by 209 basis points.

The plan policy benchmark is a point of reference that compares the system's total investment performance against the weighted average of the benchmark performance of each of the system's underlying asset classes. Most of the system's asset classes produced positive returns for the year, with the exception of the real return asset class, which was negatively impacted by inflation-sensitive securities in commodities and inflation-linked global bonds.

After the payment of benefits, the market value of assets increased by approximately $3.2 billion from $37.2 billion on June 30, 2012 to $40.4 billion on June 30, 2013.

The system's target asset allocation is comprised of 35% public equities, 10% fixed income, 10% private equities, 10% credit/debt strategies, 10% real estate, 14% real return, 10% absolute return and 1% cash. 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, allows the system to weather short term market volatility.

Major Issues

With the strong support and encouragement of the board, the General Assembly passed legislation during the 2013 session that will phase the system out of the so-called "corridor funding" methodology—a contributing factor to its underfunding—over the next ten years and return the system to the actuarially required contribution (ARC) methodology. In addition, the system's unfunded liabilities were reamortized to a 25-year closed schedule beginning with the June 30, 2013 valuation. This important funding change closely followed action taken during the 2011 session by Governor Martin O'Malley and the Maryland General Assembly to enact comprehensive pension reform that promises to lead the system to full funding by 2039.

Under the corridor funding method, contribution rates are fixed from year to year as long as the funded status for each of these systems remains in a "corridor" of 90% to 110%. When it was adopted in 2002, both systems were within the corridor, but within three years, the employees' plan dropped out of the corridor and the teachers' plan followed in 2006.

Since its enactment, the corridor funding method has resulted in annual reductions of between $100 million and $200 million in the state's employer contributions, and thus contributed to the declining funded ratio for the Maryland State Retirement and Pension System because it creates deliberate short-term underfunding of the system's liabilities. The board has been on record in opposition to this methodology since its implementation.

In the latter part of fiscal year 2013, the board decided to lower the agency's assumed rate of return to 7.55% incrementally over the next four years to best reflect the pension fund's currently expected long-term future investment gains. The decision was made following careful analysis by the board, with extensive analysis and significant input from the system's actuary and investment consultant. Currently set at 7.75%, the assumed rate of return will be lowered 0.05% each fiscal year beginning with the July 2013 actuarial valuation. The 7.75% rate has been in effect since 2003.

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

Financial Information

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

Accounting System and Reports

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

Revenues

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2013, investment earnings were $3.85 billion, while revenues from employer and member contributions were $1.64 billion and $710.9 million, respectively. For fiscal year 2013, member contribution rates on average were 7%, while employer rates varied depending on the system.

Expenses

The system's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of system operations. Payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the system's primary disbursements during FY 2013, totaling $2.9 billion. In addition, the system disbursed $311.1 million to manage the investment portfolio and to administer the system, of which $273.8 million was paid for investment management services, $5 million for securities lending services and $26.3 million used to fund the system's administrative operations.

Funding

Funds are derived from the excess of additions, which include contributions and investment earnings, over deductions, which are comprised of benefits and administrative expenses. Funds are accumulated to meet future benefit obligations to retirees and beneficiaries. This accumulated balance is referred to as the "net assets held in trust for pension benefits" in the Statement of Pension Net Assets in the Financial Section of this report. The actuarial accrued liability is not disclosed in the basic financial statement but is disclosed in note nine to the basic financial statements. The funded status schedule presented in note nine shows the actuarial value of assets, which is based on a five-year smoothed expected rate of return, wherein the excess or shortfall of investment income over or under the actuarial assumed income of 7.70% 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 increased from 64.4% as of June 30, 2012 to 65.5% as of June 30, 2013.

At June 30, 2013, the system's actuarial accrued liability was $60.0 billion and the unfunded actuarial accrued liability totaled $20.7 billion, resulting in a funded status ratio of 65.5%. The unfunded actuarial accrued liability will be 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 efficiently and effectively manage the system. Actuarial services were provided by Gabriel Roeder Smith & Company and independent financial statement audit services were provided by SB & Company, LLC. The system's asset custody and portfolio accounting services were provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. Hewitt Ennis Knupp, Inc. serves as the system's general investment consultant. Specialty consulting services are provided by Altius Associates Limited and Pension Consulting Alliance, Inc. for private equity and real estate, respectively. Albourne America LLC advises staff on the retirement system's Absolute Return portfolio and Wilshire Associates provides risk consulting services. A complete listing of the system's professional consultants and external investment advisors is presented on page 11.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Maryland State Retirement and Pension System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the twenty-fourth consecutive year (1989 through 2012) that it has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Additionally, the Maryland State Retirement and Pension System received the Public Pension Coordinating Council's (PPCC) 2013 Recognition Award for Administration, in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

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

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

The Public Pension Standards are intended to reflect 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 2013.

R. Dean Kenderdine
Executive Director
Secretary to the Board

Melody Countess, CPA
Chief Operating Officer

BOARD OF TRUSTEES

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

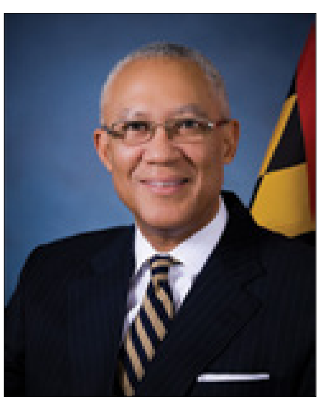
PETER FRANCHOT, *Vice Chairman*
State Comptroller
Ex Officio since January 22, 2007
Member, Investment Committee

DAVID S. BLITZSTEIN
April 1, 2008 – July 31, 2016
Chairman, Corporate Governance Committee
Member, Investment Committee

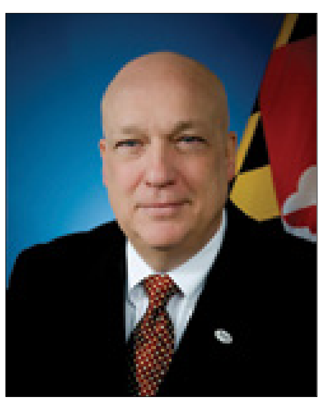
JAMES R. BUSH, JR.
August 1, 2013 - June 31, 2017
Member, Audit Committee
Member, Investment Committee

JOHN W. DOUGLASS
May 18, 2004 – July 31, 2015
Vice Chairman, Audit Committee
Member, Administrative Committee

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



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



KENNETH B. HAINES
January 1, 2012 – July 31, 2017
Member, Administrative Committee
Member, Audit Committee

JAMES M. HARKINS
October 1, 2004 - June 30, 2014
Chairman, Administrative Committee
Member , Corporate Governance Committee

BOARD OF TRUSTEES

LINDA A. HERMAN
August 1, 2013 - June 31, 2017
Member, Audit Committee
Member, Corporate Governance Committee
Member, Investment Committee

F. PATRICK HUGHES
April 20, 2004 – June 30, 2017
Chairman, Audit Committee
Vice Chairman, Investment Committee
Member, Securities Litigation Committee

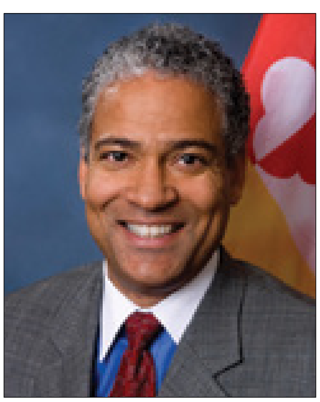
MAJOR MORRIS L. KROME
August 1, 1998 – July 31, 2014
Vice Chairman, Administrative Committee
Member, Audit Committee
Member, Investment Committee

THERESA LOCHTE
August 1, 2007 – July 31, 2015
Member, Administrative Committee
Member , Corporate Governance Committee
Member, Investment Committee

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

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

ADVISORS TO THE INVESTMENT COMMITTEE



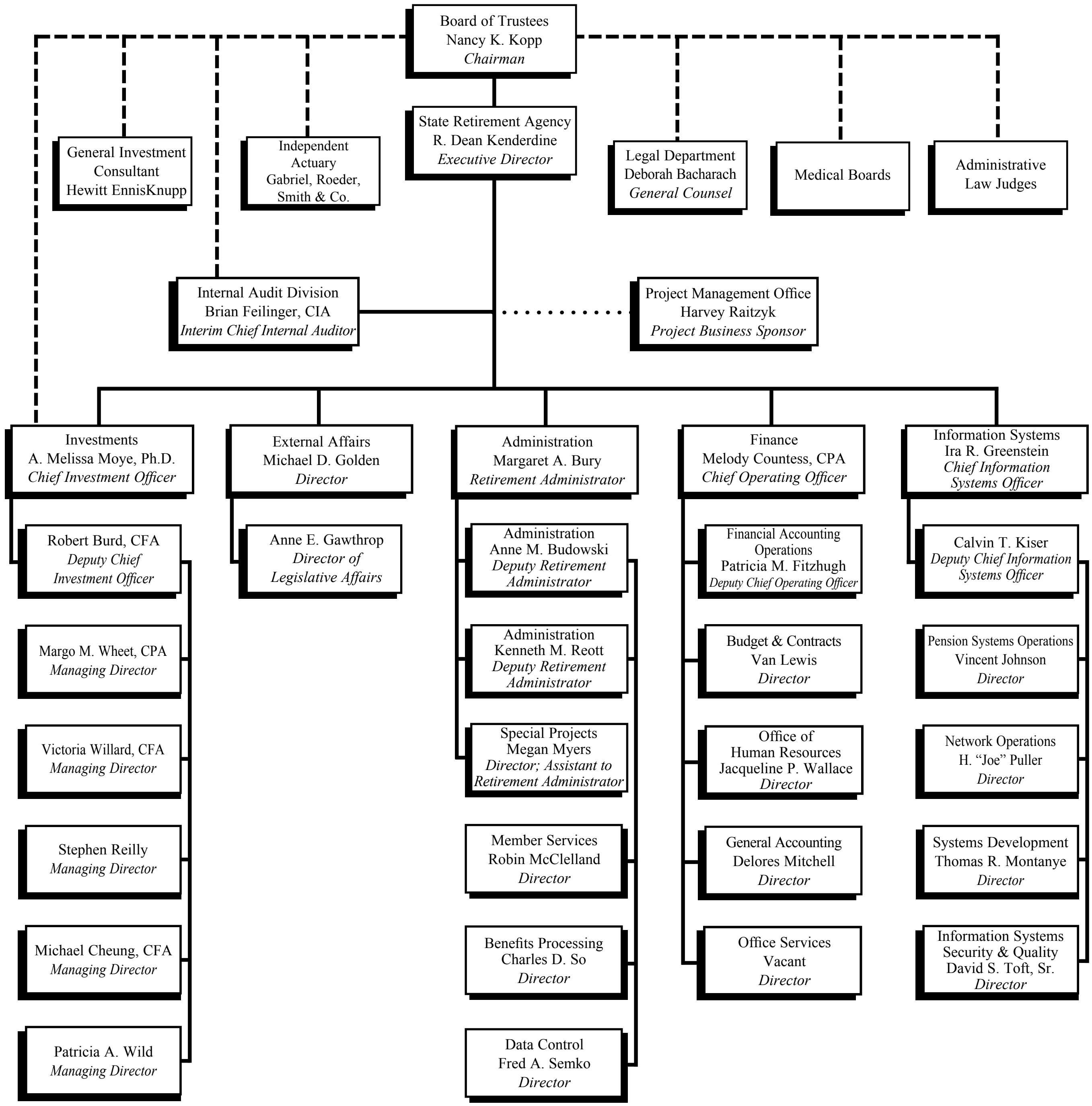
LARRY E. JENNINGS, JR.

WAYNE H. SHANER

BRIAN B. TOPPING

ORGANIZATIONAL CHART

(November, 2013)



*Additional information regarding investment professionals who provide services to the System can be found on pages 11, and 61-65.

PROFESSIONAL SERVICES

Global Custodial Bank & Security Lending

State Street Bank and Trust Company
Boston, Massachusetts

Hearing Officers

Office of Administrative Hearings
Baltimore, Maryland

Independent Actuary

Gabriel Roeder Smith & Company
Southfield, Michigan

Independent Public Accountant

SB & Company, LLC
Hunt Valley, Maryland

Independent Investment Consultants

Altius Associates Limited
Richmond, Virginia

Hewitt EnnisKnupp, Inc.
Chicago, Illinois

Pension Consulting Alliance
Encino, California

Albourne America, LLC
San Francisco, California

Medical Board

Dr. Elizabeth Adegboyega-Panox
Dr. Eroll L. Bennett
Dr. Robin A. Conwit
Dr. Vinu Ganti
Dr. Arthur Hildreth
Dr. Bruce Kohrn
Dr. Archana Goel Leon-Guerrero
Dr. Christian E. Jensen
Dr. John Parkerson
Dr. William B. Russell
D. William Smulyan
Dr. Zia Zakai

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 Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Public Pension Coordinating Council

Recognition Award for Administration 2013

Presented to

Maryland State Retirement and Pension System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

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Financial Section

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Maryland State Retirement and Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland State Retirement and Pension System (the System), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 these basic 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 audit to obtain reasonable assurance about whether the basic 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, 2013 and 2012, and the changes in plan net position for the years then ended, in conformity 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 Funding Progress, and Schedule of Contributions from Employers and Other Contributing Entity 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 opinion on the financial statements that collectively comprise the System's basic financial statements. The 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.

SB & Company, LLC

Hunt Valley, Maryland
December 15, 2013

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, 2013, 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., schedules of funding progress, and employer contributions) as well as other supplementary schedules considered relevant to the financial statement user (e.g., schedules of fund balances, administrative and investment expenses, plan net position, and related changes by system). To better understand the relevance of the information presented in the System's financial statements and related notes and supplementary information, it is helpful to first consider what purpose each component is intended to serve.

The Statements of Plan Net 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.

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

The Schedule of Funding Progress, while similar in scope to the Statements of Plan Net 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 Contributions from Employers and Other Contributing Entity, much like the Schedule of Funding Progress, shares common characteristics with data disclosed in the basic financial statements. In this regard, both the Statements of Changes in Plan Net 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 Contributions from Employers and Other Contributing Entity 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.

Fiscal Year 2013 compared to 2012

The following condensed comparative Statement of Plan Net Position for the fiscal years ended June 30, 2013 and 2012, presents an increase in the System's net position of $3.18 billion (8.6%). This increase is primarily due to positive net returns in the investment portfolio, led by domestic, international and global equity; credit and debt strategies; private equity and real estate. Additional information on our fiscal year 2013 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 2012 to 2013 is as follows (expressed in millions):

	June 30,		Change	
	2013	**2012**	**Amount**	**%**
Cash & cash equivalents	**$2,085.1**	$2,171.0	$(85.9)	-4.0%
U.S. Government obligations	**3,556.6**	3,231.4	325.2	10.1%
Domestic corporate obligations	**2,771.8**	2,808.3	(36.5)	-1.3%
International obligations	**1,603.7**	1,306.5	297.2	22.7%
Domestic stocks	**8,255.4**	7,988.3	267.1	3.3%
International stocks	**7,827.1**	8,147.7	(320.6)	-3.9%
Mortgages & mortgage related securities	**2,079.5**	2,491.8	(412.3)	-16.5%
Real estate	**-**	5.0	(5.0)	-100.0%
Alternative investments	**12,227.2**	9,614.4	2,612.8	27.2%
Total managed investments	**40,406.4**	37,764.4	2,642.0	7.0%
Collateral for loaned securities	**2,876.4**	3,452.1	(575.7)	-16.7%
Total investments and cash & cash equivalents	**43,282.8**	41,216.5	2,066.3	5.0%
Receivables	**1,455.2**	1,040.6	414.6	39.8%
Total Assets	**44,738.0**	42,257.1	2,480.9	5.9%
Liabilities	**4,374.8**	5,078.4	(703.6)	-13.9%
Total Net Position, End of Year	**$ 40,363.2**	$37,178.7	$3,184.5	8.6%

As depicted in the following comparative Statement of Changes in Plan Net Position for fiscal years 2013 and 2012, contributions to the plan during fiscal year 2013 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 10.6%, recognizing $3,845 million in net investment income.

The System continues to pay out more benefits than contributions collected. An increase of $195.6 million in benefits paid to retirees correlates to the increase in the number of retirees and beneficiaries experienced in fiscal year 2013. This increase offset against $3,845.8 million of fiscal year 2013 investment returns resulted in a net change in pension net position of $3,184.5 million.

A schedule of the System's additions to and deductions from plan net position and related changes (by major category) from fiscal year 2012 to 2013, is as follows (expressed in millions):

	June 30,		Change	
	2013	**2012**	**Amount**	**%**
Employer contributions	**$959.6**	$697.5	$262.1	37.6%
Member contributions	**710.9**	703.3	7.6	1.1%
State contributions on behalf of local governments & contribution interest	**683.5**	898.2	(214.7)	-23.9%
Net investment income (loss)	**3,845.8**	104.1	3,741.7	3594.3%
Total additions	**6,199.8**	2,403.1	3,796.7	158.0%
Benefit payments	**2,950.7**	2,755.1	195.6	7.1%
Refunds	**38.3**	33.8	4.5	13.3%
Administrative expenses	**26.3**	28.2	(1.9)	-6.7%
Total deductions	**3,015.3**	2,817.1	198.2	7.0%
Net increase (decrease) in plan net position	**$3,184.5**	$(414.0)	$3,598.5	869.2%

Fiscal Year 2012 compared to 2011

The System's net position decreased by $414 million (1.1%) from fiscal year 2011 to the end of fiscal year 2012. This decrease in net position was primarily attributable to a challenging investment environment, particularly in international equity.

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

	June 30,		Change	
	2012	**2011**	**Amount**	**%**
Cash & cash equivalents	$2,171.0	$2,002.7	$168.3	8.4%
U.S. Government obligations	3,231.4	3,298.8	(67.4)	-2.0%
Domestic corporate obligations	2,808.3	3,133.1	(324.8)	-10.4%
International obligations	1,306.5	1,078.0	228.5	21.2%
Domestic stocks	7,988.3	8,409.0	(420.7)	-5.0%
International stocks	8,147.7	9,226.1	(1,078.4)	-11.7%
Mortgages & mortgage related securities	2,491.8	2,582.9	(91.1)	-3.5%
Real estate	5.0	166.4	(161.4)	-97.0%
Alternative investments	9,614.4	8,379.9	1,234.5	14.7%
Total managed investments	37,764.4	38,276.9	(512.5)	-1.3%
Collateral for loaned securities	3,452.1	4,245.0	(792.9)	-18.7%
Total investments and cash & cash equivalents	41,216.5	42,521.9	(1,305.4)	-3.1%
Receivables	1,040.6	887.7	152.9	17.2%
Total assets	42,257.1	43,409.6	(1,152.5)	-2.7%
Liabilities	5,078.4	5,816.9	(738.5)	-12.7%
Total Net Position, End of Year	$$37,178.7	$37,592.7	$(414.0)	-1.1%

In the following comparative Statement of Changes in Plan Net Position, for fiscal years 2012 and 2011, an increase in member contributions to the plan occurred in fiscal year 2012 as a result of the implementation of 2011 pension reform legislation that increased member contributions. This increase combined with an increase in benefit payments due to the increase in the number of retirees and beneficiaries during fiscal year 2012 and the continued pay out of more benefits than contributions resulted in an overall reduction of $414 million in total net position.

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

	June 30,		Change	
	2012	**2011**	**Amount**	**%**
Employer contributions	$697.5	$612.3	$85.2	13.9%
Member contributions	703.3	528.0	175.3	33.2%
State contributions on behalf of local governments & contribution interest	898.2	900.2	(2.0)	-0.2%
Net investment income	104.1	6,273.3	(6,169.2)	-98.3%
Total additions	2,403.1	8,313.8	(5,910.7)	-71.1%
Benefit payments	2,755.1	2,580.4	174.7	6.8%
Refunds	33.8	33.4	0.4	1.2%
Administrative expenses	28.2	30.9	(2.7)	-8.7%
Total deductions	2,817.1	2,644.7	172.4	6.5%
Net increase in plan net position	$(414.0)	$5,669.1	$(6,083.1)	-107.3%

ANALYSIS OF FUNDED STATUS

The unfunded liability for each System is being amortized over a single closed 25-year period beginning July 1, 2014 and ending June 30, 2039. In addition, the corridor method used by the Teachers' Combined System and the State portion of the Employees' Combined System, which was established in 2001, is being phased-out over a ten-year period beginning fiscal year 2015. The combination of changes in plan experience and assumptions changes resulted in an increase in the System's funded ratio from 64.4% as of June 30, 2012 to 65.5% as of June 30, 2013.

In analyzing the System's overall funded status, it is important to remember that a retirement system's funding plan is based on a long time horizon, in which fluctuations in the market are expected. The more critical factor is that the System be able to meet the current actuarial assumed rate of return of 7.70%. A schedule of funding progress presenting multi-year trend information about whether the actuarial value of plan position is increasing or decreasing over time relative to the actuarial accrued liability for benefits can be found under Required Supplementary Information. Additional information on the plan's funding progress is also presented in the Actuarial Section of this report.

REQUESTS FOR INFORMATION

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

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

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM

STATEMENTS OF PLAN NET POSITION
As of June 30, 2013 and 2012
(Expressed in Thousands)

	2013	2012
Assets:		
Cash & Cash Equivalents (note 3)	$2,085,086	$2,171,007
Receivables		
Contributions:		
Employers	23,126	21,894
Employers – long term (note 5)	38,040	41,828
Members	11,016	12,773
Accrued investment income	195,152	152,166
Investment sales proceeds	1,187,822	811,898
Total receivables	1,455,156	1,040,559
Investments, at fair value (notes 2 & 3)		
U.S. Government obligations	3,556,575	3,231,434
Domestic corporate obligations	2,771,786	2,808,267
International obligations	1,603,739	1,306,528
Domestic stocks	8,255,430	7,988,328
International stocks	7,827,082	8,147,718
Mortgages & mortgage related securities	2,079,512	2,491,766
Real estate	-	5,009
Alternative investments	12,227,172	9,614,379
Collateral for loaned securities	2,876,448	3,452,109
Total investments	41,197,744	39,045,538
Total Assets	44,737,986	42,257,104
Liabilities:		
Accounts payable & accrued expenses (note 8)	57,112	55,055
Investment commitments payable	1,438,653	1,568,720
Obligation for collateral for loaned securities	2,876,448	3,452,109
Other liabilities	2,556	2,494
Total Liabilities	4,374,769	5,078,378
Net position held in trust for pension benefits	$40,363,217	$37,178,726

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, 2013 and 2012

(Expressed in Thousands)

	2013	**2012**
ADDITIONS:		
Contributions:		
Employers	$959,612	$697,547
Members	710,856	703,256
State contributions on behalf of local governments	681,217	895,691
Contribution interest	2,272	2,523
Total contributions	**2,353,957**	**2,299,017**
Investment Income:		
"Net appreciation (depreciation) in fair value of investments"	2,653,978	(1,098,048)
Interest	345,218	378,496
Dividends	1,107,491	1,041,358
Real estate operating net income	37	5,274
Income before securities lending activity	**4,106,724**	**327,080**
Gross income from securities lending activity	17,863	24,208
Securities lending borrower rebates	(2,607)	(2,230)
Securities lending agent fees	(2,392)	(3,486)
Net income from securities lending activity	12,864	18,492
Total investment income	4,119,588	345,572
Investment expenses	(273,793)	(241,489)
Net investment income	3,845,795	104,083
TOTAL ADDITIONS	**6,199,752**	**2,403,100**
DEDUCTIONS:		
Benefit payments	2,950,700	2,755,106
Refunds	38,281	33,819
Administrative expenses	26,280	28,201
TOTAL DEDUCTIONS	**3,015,261**	**2,817,126**
Net increase (decrease) in plan position	**3,184,491**	**(414,026)**
Net Position Held in Trust for Pension Benefits		
Beginning of the fiscal year	37,178,726	37,592,752
End of the Fiscal Year	**$40,363,217**	**$37,178,726**

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

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

B. Covered Members

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

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

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

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

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

The following table presents a summary of membership by system as of June 30, 2013, with comparative 2012 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	23,555	66,390	82,753	21,275	104,028
Employees' Retirement & Pension Systems*	27,652	67,211	64,109	20,658	84,767
Judges' Retirement System	10	378	276	12	288
State Police Retirement System	84	2,428	993	327	1,320
Law Enforcement Officers' Pension System	251	1,518	1,870	537	2,407
Total as of June 30, 2013	**51,552**	**137,925**	**150,001**	**42,809**	**192,810**
Total as of June 30, 2012	51,230	132,493	150,309	42,685	192,994

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

C. Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the Employees', Teachers', Correctional Officers' or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the State Police Retirement System or the Correctional Officers' Retirement System on or after July 1, 2011, retirement allowances are computed using both the highest five years' AFC and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

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

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

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2013, are as follows:

Service Retirement Allowances

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

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employees' Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

An individual who is a member of the State Police Retirement System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22 years of eligibility service regardless of age. An individual who becomes a member of the State Police Retirement System on or after July 1, 2011 is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance equals 2.55% of the member's AFC multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFC.

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

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

Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. An individual who is a member of the Judges' Retirement System on or before June 30, 2012, has no minimum service requirements prior to vesting. However, individuals who join the Judges' Retirement System on or after July 1, 2012, and terminate employment before attaining retirement age will have to accrue five years of eligibility service in order to receive a vested retirement allowance. Legislators become eligible for a vested retirement allowance upon accumulating 8 years of eligibility services. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pension System is 30%.

Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

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

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For 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 (currently 7.75% as approved by the Board of Trustees). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of 7.75%. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

Retirement allowances for legislators and judges are recalculated when the salary of an active member holding a comparable position is increased.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

B. Investment Limitations

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

C. Portfolio Valuation Method

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

D. Derivatives

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

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

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

E. Administrative and Investment Expenses

All of the System's administrative and investment expenses (e.g., salaries of Agency employees, investment advisory fees) are incurred centrally and charged to each individual retirement or pension system on the basis of its percentage ownership in the System's net position. 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 page 45 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2013 and 2012, 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, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to:

Type	Description	As of June 30, 2013 Strategic Target	As of June 30, 2013 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%	42.3%
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%	16.2%
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%	8.4%
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%	7.3%
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%	6.2%
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%	5.7%
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%	12.6%
Cash Portfolio	Short term investments such as money market funds, U.S. treasury bills and currency.	1.0%	1.3%

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

B. Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it.

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

The amount of the System's total cash and cash equivalents as of June 30, 2013 and June 30, 2012, was $2,085,086 and $2,171,007 (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, 2013, 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	$292,997	$158	$94,616	$54,293	$143,930
Bank loans	82,169	-	29,446	52,723	-
Collateralized mortgage backed securities	4,403	-	-	-	4,403
Collateralized mortgage obligations	506,123	-	14,349	52,408	439,366
Credit/debt commingled funds	1,661,315	-	956,118	699,551	5,646
Convertible bonds	56,013	2,666	25,823	15,318	12,206
Domestic corporate obligations	1,872,991	79,672	693,717	926,341	173,261
International obligations	1,585,711	88,686	374,475	530,662	591,888
Mortgage pass-throughs	1,602,304	162	12,873	46,748	1,542,521
Municipals	83,483	11,780	-	13,506	58,197
Options	(4,890)	(3,372)	(1,493)	(25)	-
Short-term	1,950,067	1,950,067	-	-	-
Swaps	3,866	(9)	668	2,137	1,070
U.S. government agency	150,161	21,007	50,902	66,597	11,655
U.S. treasury bonds	800,890	-	3,678	11,266	785,946
U.S. treasury notes	2,580,369	93,511	1,235,597	1,251,261	-
U.S. treasury strips	25,155	-	-	2,080	23,075
Yankee bonds	375,161	33,423	166,839	140,055	34,844
Total	**$13,628,288**	**$2,277,751**	**$3,657,608**	**$3,864,921**	**$3,828,008**

Market or interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. Derivative securities, variable rate investments with coupon multipliers greater than one, and securities with long terms to maturity are examples of investments whose fair values may be highly sensitive to interest rate changes. These securities are reported at fair value in the Statement of Plan Net 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, 2013.

At June 30, 2013, the System had $1.6 billion invested in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

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

Derivatives held as of June 30, 2013, are identified in greater detail in Note 4.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2013 and 2012, is shown below:

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

Rating	2013 Fair Value	Percentage Total Investments	2012 Fair Value	Percentage Total Investments
AAA	$ 513,727	1.273%	$1,151,307	3.097%
AA	1,965,427	4.869%	2,468,966	6.641%
A	2,618,161	6.487%	2,579,483	6.938%
BAA	351,744	0.871%	333,884	0.898%
BA	17,009	0.042%	9,752	0.026%
BBB	813,333	2.015%	851,977	2.292%
BB	214,586	0.532%	170,567	0.459%
B	215,930	0.535%	209,347	0.563%
CAA	54,075	0.134%	42,490	0.114%
CA	2,604	0.006%	570	0.002%
CCC	126,653	0.314%	97,359	0.262%
CC	18,954	0.047%	20,582	0.055%
C	0	0.000%	581	0.002%
D	17,542	0.043%	17,635	0.047%
NR	1,630,869	4.040%	524,139	1.410%
	$8,560,614		**$8,478,639**	

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.

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2013:

International Investment Securities – At Fair Value as of June 30, 2013
(U.S. Dollars in Thousands)

Currency	Equity	Fixed Income	Cash	Alternative Investments	Total
Argentine Peso	$ -	$ 86	$ -	$ -	$ 86
Australian Dollar	238,997	61,873	4,871	80,474	386,215
Brazilian Real	30,684	20,409	851	9,261	61,205
Canadian Dollar	342,333	25,951	2,655	60,822	431,761
Czech Koruna	5,771	-	27	-	5,798
Danish Krone	63,577	-	18	17,157	80,752
Egyptian Pound	1,220	-	-	-	1,220
Euro Currency	1,579,734	528,805	25,875	659,483	2,793,897
Ghana Cedi	-	246	-	-	246
Hong Kong Dollar	328,464	-	1,965	79,184	409,613
Hungarian Forint	2,036	-	102	-	2,138
India Rupee	-	-	(502)	-	(502)
Indonesian Rupiah	12,354	-	200	-	12,554
Israeli Shekel	10,426	-	178	-	10,604
Japanese Yen	1,010,442	99,853	10,826	96,376	1,217,497
Kenyan Shilling	108	-	-	-	108
Malaysian Ringgit	31,913	599	746	-	33,258
Mexican Peso	16,017	48,971	10,181	10,900	86,069
Moroccan Dirham	231	-	-	-	231
New Russian Ruble	706	926	-	-	1,632
New Taiwan Dollar	23,430	-	254	-	23,684
New Zealand Dollar	3,471	24,083	577	15,036	43,167
Nigerian Naira	2,628	-	-	-	2,628
Norwegian Krone	66,499	-	302	1,018	67,819
Philippine Peso	4,698	-	44	-	4,742
Polish Zloty	2,875	-	101	-	2,976
Pound Sterling	1,047,139	151,520	17,886	604,257	1,820,802
Singapore Dollar	92,910	-	1,092	21,797	115,799
South African Rand	33,727	12,863	1,026	-	47,616
South Korean Won	101,653	-	1,301	-	102,954
Swedish Krona	163,384	850	605	34,995	199,834
Swiss Franc	471,017	-	476	6,171	477,664
Thailand Baht	25,923	-	750	-	26,673
Turkish Lira	30,852	-	196	-	31,048
Uae Dirham	2,037	-	4	-	2,041
Yuan Renminbi	-	-	(3)	-	(3)
Multiple	1,276,008	4,822	-	224,731	1,505,561
Total Holdings Subject to Foreign Current Risk	**$7,023,264**	**$ 981,857**	**$ 82,604**	**$1,921,662**	**$ 10,009,387**

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 Position 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, 2013 and 2012 (in thousands):

	2013	2012
Interest income	$ 17,863	$ 24,208
Less:		
Interest expense	2,392	2,230
Program fees	2,607	3,486
Expenses from securities lending	4,999	5,716
Net income from securities lending	**$ 12,864**	**$ 18,492**

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, 2013, were long-term U.S. government obligations, domestic and international equities, as well as domestic and international obligations. At the initiation of a loan, borrowers are required to provide collateral amounts of 102 percent (domestic equities and bonds) and 105 percent (international equities) of the fair value of the securities lent. In the event the collateral fair value falls below the respective collateral percentages, the borrower is required to provide additional collateral by the end of the next business day. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan. There have been no violations of the provisions of the agreement during the period of these financial statements.

The System maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2013, such investment pool had an average duration of 29.08 days and an average final maturity of 91.53 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, 2013, the System had no credit risk exposure to borrowers. The market value of collateral held and the market value of securities on loan for the System as of June 30, 2013 was $2,876,447,863 and $2,801,407,413, respectively.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2013 (in thousands):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
Lent for cash collateral:			
U.S. government and agency	$1,018,170	$1,037,078	101.9%
Domestic fixed income	276,887	282,407	102.0%
Domestic equity	955,961	981,272	102.6%
International fixed	67,712	69,099	102.0%
International equity	361,913	383,292	105.9%
Lent for noncash collateral			
U.S. government and agency	110,694	112,977	102.1%
Domestic equity	8,844	9,067	102.5%
International equity	1,225	1,256	102.5%
Total securities lent	**$2,801,407**	**$2,876,448**	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		Fair Value at June 30,2013		
Currency	**Classifications**	**Amount(1)**	**Classification**	**Amount(2)**	**Notional(3)**
Commodity Futures Long	Investment Revenue	$ (21,436)	Futures	$ -	$145,833
Commodity Futures Short	Investment Revenue	1,622	Futures	-	(17)
Credit Default Swaps Bought	Investment Revenue	(1,775)	Swaps	136	33,567
Credit Default Swaps Written	Investment Revenue	2,457	Swaps	(236)	77,709
Currency Swaps	Investment Revenue	5,837	Swaps	2,902	17,683
Fixed Income Futures Long	Investment Revenue	(5,456)	Futures	-	1,069,106
Fixed Income Futures Short	Investment Revenue	16,348	Futures	-	(392,171)
Fixed Income Options Bought	Investment Revenue	(311)	Options	940	9,000
Fixed Income Options Written	Investment Revenue	2,002	Options	(3,660)	(314,030)
Foreign Currency Options Bought	Investment Revenue	(1,191)	Options	-	-
Foreign Currency Options Written	Investment Revenue	138	Options	(72)	(8,087)
Futures Options Bought	Investment Revenue	(6,316)	Options	143	818
Futures Options Written	Investment Revenue	7,307	Options	(2,241)	(3,294)
FX Forwards	Investment Revenue	150,099	Long Term Instruments	92,675	-
Index Futures Long	Investment Revenue	13,251	Futures	-	403
Pay Fixed Interest Rate Swaps	Investment Revenue	(756)	Swaps	2,892	183,264
Receive Fixed Interest Rate Swaps	Investment Revenue	1,402	Swaps	(1,879)	86,323
Rights	Investment Revenue	478	Common Stock	699	1,448
Total Return Swaps Bond	Investment Revenue	(26)	Swaps	51	2,560
Warrants	Investment Revenue	381	Common Stock	6,158	533
		$ 164,055		**$98,508**	

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

A. Credit Risk

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

The aggregate fair value of derivative instruments in asset positions at June 30, 2013, was $553,607,069. 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:

Market Value	S&P Rating	Market Value	Moody's Rating	Market Value	Fitch Rating
$414,227,294	AA-	$85,108,080	Aa1	$81,279,885	AA
114,661,460	A+	120,897,241	Aa2	332,947,409	AA-
12,934,726	A	239,619,480	Aa3	107,390,629	A+
11,783,589	A-	75,783,584	A1	31,989,145	A
		12,840,317	A2		
		16,292,366	A3		
		2,893,196	Baa1		
		172,805	Baa2		
$553,607,069	**(1)**	**$553,607,069**	**(1)**	**$553,607,069**	**(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
Westpac Banking Corporation	20%	AA-	AA-	Aa2
JP Morgan Chase Bank, N.A.	19%	A+	A+	Aa3
Toronto Dominion Bank	15%	AA-	AA-	Aa1
Royal Bank Of Canada (Uk)	15%	AA-	AA-	Aa3
HSBC Bank PLC	13%	AA-	AA-	A1
Northern Trust Company, The	10%	AA-	AA-	Aa3
Commonwealth Bank Of Australia	2%	AA-	AA-	Aa2
Goldman Sachs Capital Markets LP	1%	A-	A	A3
Citibank N.A.	1%	A	A	A3
UBS AG	1%	A	A	A2
Goldman Sachs CME	1%	A-	A	A3
Deutsche Bank AG London	1%	A+	A+	A2
Credit Suisse London Branch (GFX)	1%	A+	A	A1
Morgan Stanley and Co. International PLC	1%	A-	A	Baa1

B. Interest Rate Risk

During Fiscal Year 2013 the Agency was exposed to interest rate risk. For more details refer to the Interest Rate Risk Note 3D (GASB Statement No. 40).

C. Foreign Currency Risk

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

5. CONTRIBUTIONS

The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected. Members of the State Police and Judges' Retirement Systems are required to contribute 8% and 6% of earnable compensation, respectively, and beginning July 1, 2012, members of the Judges Retirement System are required to make contributions of 8% of earnable compensation. Members of the Teachers' and Employees' Pension System, Alternate Contributory Pension Selection (ACPS), are required to contribute 7% of earnable compensation.

However, members of the Employees' Pension System who are employed by a participating governmental unit that elected to remain in the Contributory Pension System are required to contribute 2% of earnable compensation. The members of the Employees' Pension System who are employed by participating governmental units who elected to remain in the Non-Contributory Pension System are only required to contribute 5% of earnable compensation in excess of the social security taxable wage base.

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

The unfunded actuarial liability 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 2013 legislative session, the Legislature changed the method used to fund the System. The unfunded liability as of June30, 2013 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, 2013 and 2012, the outstanding balances were $38,040 and $41,828 (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, 2013 and 2012, refunds to members and withdrawing employers were $38,281 and $33,819 (expressed in thousands), respectively.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2013 and 2012, accounts payable and accrued expenses consisted of the following components (expressed in thousands):

	2013	**2012**
Administrative expenses	$1,276	$2,996
Investment management fees	24,048	22,715
Tax and other withholdings	31,788	29,344
Total	$57,112	$55,055

9. FUNDED STATUS AND FUNDING PROGRESS

Description of Schedule of Funded Status

The Schedule of Funded Status summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2013. The data presented in the schedule below was obtained from the System's independent actuary's annual valuation report as of June 30, 2013.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2013, the System's funded ratio increased from 64.37% to 65.52%.

The Schedule of Funded Status also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. During the year ended June 30, 2013, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 199% at June 30, 2012 to 198% as of June 30, 2013.

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

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll over a closed period of 25 years. The UAAL which existed as of June 30, 2013 will be amortized over the fiscal years from June 30, 2015 to June 30, 2039.

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

The funding progress of the System valued at June 30, are as follows (dollar amounts expressed in thousands):

	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
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%**	**10,477,544**	**198%**

The contribution from employers and other contributing entity are as follows (dollar amounts expressed in thousands):

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2011	$2,035,401	74%
2012	2,146,624	71%
2013	2,149,985	76%

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent closed
Remaining Amortization Period	25-year closed
Asset Valuation Method	5-year smoothed market (max.120% and min.80% of market value.)
Actuarial Assumptions: **Investment Rate of Return** **Projected salary increases** **Including wage inflation of 3.5%** **COLAs/Inflation Rate**	7.70% 3.40% - 11.95% 2.70% - 3.45% for service prior to July 1, 2011.* 1.69% - 3.45% for service after June 30, 2011. * *Based on System and provisions.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
2004	$33,484,657	$36,325,704	$2,841,047	92.18%	$8,069,481	35%
2005	34,519,500	39,133,450	4,613,950	88.21%	8,603,761	54%
2006	35,795,025	43,243,492	7,448,467	82.78%	9,287,576	80%
2007**	37,886,936	47,144,354	9,257,418	80.36%	9,971,012	93%
2008	39,504,284	50,244,047	10,739,763	78.62%	10,542,806	102%
2009	34,284,569	52,729,171	18,444,602	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%	10,477,544	198%

** 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
2004	$710,632	89%
2005	805,564	83% *
2006	874,079	82%
2007	1,025,972	81%
2008	1,183,765	89%
2009	1,313,560	84%
2010	1,519,980	86%
2011	2,035,401	74%
2012	2,146,624	71%
2013	2,149,985	76%

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

OTHER SUPPLEMENTARY INFORMATION

FUND BALANCE ACCOUNTS

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

A. Annuity Savings Fund

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

B. Accumulation Fund

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

C. Expense Fund

All 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 into the Expense Fund from each participating employer to cover expenses incurred.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2013 (with Comparative 2012 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2012	Totals 2011
Fund Balances, Beginning of Year	$4,655,440	$32,523,286	$ -	$37,178,726	$37,592,752
Additions					
Net investment income (loss)	-	4,119,588	(273,793)	3,845,795	104,083
Contributions (Note5):					
Employers	-	933,359	26,253	959,612	697,547
Members	710,856	-	-	710,856	703,256
State contributions on behalf of local governments	-	681,217	-	681,217	895,691
Contribution interest	-	2,272	-	2,272	2,523
Deductions					
Benefit payments	-	(2,950,700)	-	(2,950,700)	(2,755,106)
Refunds (Note 7)	(38,281)	-	-	(38,281)	(33,819)
Administrative expenses (Note 2)	-	(2,210)	(24,070)	(26,280)	(28,201)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	288,018	(288,018)		-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(298,549)	298,549		-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(273,793)	273,793	-	-
Net changes in fund balances	662,044	2,520,264	2,183	3,184,491	(414,026)
Fund Balances, End of Year	$5,317,484	$35,043,550	$ 2,183	$40,363,217	$37,178,726

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES
for the Fiscal Years Ended June 30, 2013 and 2012
(Expressed in Thousands)

	2013	2012
Personnel services		
Staff salaries	$11,958	$12,106
Fringe benefits	5,160	4,816
Total personnel services	17,118	16,922
Professional and contractual services		
Actuarial	301	356
Legal and financial	1,236	1,146
Consulting services	1,156	940
Data processing	1,131	4,359
Other contractual services	817	923
Total professional and contractual services	4,641	7,724
Miscellaneous		
Communications	521	478
Rent	1,820	1,736
Equipment and supplies	200	272
Other	1,980	1,069
Total miscellaneous	4,521	3,555
Total Administrative Expenses	$26,280	$28,201

SCHEDULE OF INVESTMENT EXPENSES
for the Fiscal Years Ended June 30, 2013 and 2012
(Expressed in Thousands)

	2013	2012
Investment advisors		
Public Equity	$74,316	$62,844
Fixed Income (Includes debt related)	57,667	43,851
Alternative investment	129,116	122,480
Total investment advisory fees	261,099	229,175
Other investment service fees		
Currency overlay	9,038	9,220
Other investment expenses	3,656	3,094
Total other investment service fees	12,694	12,314
Total Investment Expenses	$273,793	$241,489

MARYLAND STATE RETIREMENT

SCHEDULE OF PLAN NET

as of June 30, 2013

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	State Police Retirement System
Assets::			
Cash & cash equivalents (note 3)	$1,211,594	$719,300	$66,249
Receivables:			
Contributions:			
Employers	1,120	18,028	2,336
Employers - Long Term (note 5)	-	38,040	-
Members	1,406	9,084	246
Accrued investment income	117,888	66,883	5,779
Investment sales proceeds	718,980	405,550	35,203
Due from other systems	39	77	2
Total receivables	839,433	537,662	43,566
Investments, at fair value (notes 2 & 3)			
U.S. Government obligations	2,164,947	1,200,975	104,297
Domestic corporate obligations	1,687,234	935,970	81,282
International obligations	976,223	541,547	47,029
Domestic stocks	5,025,220	2,787,674	242,089
International stocks	4,764,477	2,643,030	229,528
Mortgages & mortgage related securities	1,265,834	702,205	60,981
Real estate	-	-	-
Alternative investments	7,442,886	4,128,843	358,560
Collateral for loaned securities	1,743,519	978,565	84,273
Total investments	25,070,340	13,918,809	1,208,039
Total assets	27,121,367	15,175,771	1,317,854
Liabilities:			
Accounts payable & accrued expenses	35,776	18,176	1,738
Investment commitments payable	870,870	491,195	43,205
Obligation for collateral for loaned securities	1,743,519	978,565	84,273
Other liabilities	1,548	870	75
Due to other systems	29	91	-
Total liabilities	2,651,742	1,488,897	129,291
Net position held in trust for pension benefits	$24,469,625	$13,686,874	$1,188,563

AND PENSION SYSTEM

POSITION BY SYSTEM

Judges' Retirement System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 44,504	$ 43,439	$2,085,086	$ -	$2,085,086
38	1,604	23,126	-	23,126
		38,040	-	38,040
4	276	11,016	-	11,016
1,644	2,958	195,152	-	195,152
10,048	18,041	1,187,822	-	1,187,822
-	2	120	(120)	-
11,734	22,881	1,455,276	(120)	1,455,156
29,589	56,767	3,556,575	-	3,556,575
23,059	44,241	2,771,786	-	2,771,786
13,342	25,598	1,603,739	-	1,603,739
68,680	131,767	8,255,430	-	8,255,430
65,116	124,930	7,827,081	-	7,827,081
17,300	33,192	2,079,512	-	2,079,512
-	-	-	-	-
101,722	195,161	12,227,172	-	12,227,172
24,311	45,780	2,876,448	-	2,876,448
343,119	657,437	41,197,744	-	41,197,744
399,357	723,757	44,738,106	(120)	44,737,986
639	783	57,112	-	57,112
12,053	21,330	1,438,653	-	1,438,653
24,311	45,780	2,876,448	-	2,876,448
22	41	2,556	-	2,556
-	-	120	(120)	-
37,025	67,934	4,374,889	(120)	4,374,769
$ 362,332	$ 655,823	$40,363,217	$ -	$40,363,217

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	$ 299,787	$ 529,161	$ 51,330
Members	432,215	260,201	6,429
State contributions on behalf of local governments	681,217	-	-
Contribution interest	-	2,272	-
Total Contributions	1,413,219	791,634	57,759
Investment Income			
Net (depreciation) in fair value of investments	1,608,314	903,994	78,033
Interest	208,952	117,779	10,144
Dividends	670,540	377,668	32,553
Real estate operating net income	22	13	1
Income Before Securities Lending Activity	2,487,828	1,399,454	120,731
Gross income from securities lending activity:	10,753	6,121	522
Securities lending borrower rebates	(1,565)	(898)	(75)
Securities lending agent fees	(1,441)	(819)	(70)
Net income from securities lending activity	7,747	4,404	377
Total Investment Income	2,495,575	1,403,858	121,108
Less investment expenses:			
Investment advisory fees	(165,784)	(93,350)	(8,040)
Net investment income	2,329,791	1,310,508	113,068
Transfers from other systems	-	-	-
Total Additions	3,743,010	2,102,142	170,827
Deductions:			
Benefit payments	1,741,745	1,027,510	109,055
Refunds (note 7)	20,542	16,977	245
Administrative expenses (note 2)	13,781	11,701	349
Transfers to other systems	-	-	-
Total Deductions	1,776,068	1,056,188	109,649
Net System Transfers	1,150	(1,323)	1
Net increase in plan assets	1,968,092	1,044,631	61,179
Net position held in trust for pension benefits:			
Beginning of the fiscal year	22,501,533	12,642,243	1,127,384
End of the Fiscal Year	$24,469,625	$13,686,874	$1,188,563

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

AND PENSION SYSTEM

PLAN NET POSITION BY SYSTEM

June 30, 2013

Judges' Retirement System	Law Enforcement Officers' Pension System	Total
$ 24,062	$ 55,272	$ 959,612
2,452	9,559	710,856
-	-	681,217
-	-	2,272
26,514	64,831	2,353,957
22,396	41,241	2,653,978
2,939	5,404	345,218
9,409	17,321	1,107,491
-	1	37
34,744	63,967	4,106,724
151	316	17,863
(24)	(45)	(2,607)
(20)	(42)	(2,392)
107	229	12,864
34,851	64,196	4,119,588
(2,324)	(4,295)	(273,793)
32,527	59,901	3,845,795
-	-	-
59,041	124,732	6,199,752
25,964	46,426	2,950,700
29	488	38,281
38	411	26,280
-	-	-
26,031	47,325	3,015,261
-	172	-
33,010	77,579	3,184,491
329,322	578,244	37,178,726
$362,332	$655,823	$40,363,217

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SRPS

Investment Section

CHIEF INVESTMENT OFFICER'S REPORT

INVESTMENT OVERVIEW

The Maryland State Retirement and Pension System returned 10.57 percent in fiscal year 2013. After the payment of benefits, the market value of assets increased by approximately $3.2 billion, from $37.2 billion on June 30, 2012 to $40.4 billion on June 30, 2013. All major asset classes produced positive returns for the year, with the exception of the real return asset class. The fund exceeded its actuarial return target of 7.75 percent, and also solidly outperformed its policy benchmark of 8.48 percent.

Public equity was the best-performing asset class for the fiscal year, with a return of +19.1%. This return exceeded the public equity blended benchmark of +16.7%. The public equity program has three components. The U.S. public equity portfolio returned 21.6 percent, slightly beating the return of the Russell 3000 Index, which returned 21.5 percent. The international equity portfolio returned +16.4 percent compared to +13.6 percent for its benchmark, the Morgan Stanley Capital International (MSCI) All Country World ex-U.S. Index. The global equity portfolio returned +20.6 percent compared to +16.6 percent for its benchmark, the MSCI AC World Index, a broad measure of stock performance in the developed and emerging markets. The outperformance of the international and global equity programs relative to their respective benchmarks can be attributed to gains from the currency overlay program as a result of a strengthening U.S. dollar relative to foreign currencies, as well as active management.

The fixed income portfolio returned +1.1 percent, compared to -0.2 percent for its blended benchmark: 80 percent Barclays Capital (BC) Aggregate Index and 20 percent BC Global Bond Aggregate Index. The credit/debt strategies portfolio returned +13.4 percent compared to +5.1 percent for its blended benchmark: 50 percent BC Credit Index and 50 percent BC High Yield Index. The portfolio was established in 2009 to take advantage of the dislocation in the credit markets, and is expected to provide near equity-like returns at a reduced level of risk.

The real return portfolio returned -1.5 percent, compared to -3.8 percent for its blended benchmark, which consists of the following three components:

- 30 percent Dow Jones UBS Commodities Index (total return);
- 10 percent Consumer Price Index + 5 percent, with this second component having a maximum total benchmark return of 8 percent; and
- 60 percent inflation linked bonds (consisting of 50 percent BC U.S. Treasury Inflation-Protected Securities (TIPS) Index and 50 percent BC Global Inflation Linked (U.S. dollar hedged) Index).

The absolute return portfolio returned +3.4 percent, compared to +7.3 percent for its customized benchmark: Hedge Funds Research, Inc. (HFRI) Fund of Funds Index. The real estate portfolio returned +12.6 percent versus +12.0 percent for its blended benchmark: Wilshire U.S. Real Estate Securities Index (Wilshire RESI), National Council of Real Estate Investment Fiduciaries Property Index (NCREIF), and the Financial Times Stock Exchange European Public Real Estate Association (FTSE EPRA) /National Association of Real Estate Investment Trust (NAREIT) Global ex-U.S. indices (net).

The private equity program returned +11.7 percent, compared to the +8.9 percent return of its customized benchmark, the State Street Private Equity Index (one quarter lag).

The System's Terra Maria program returned +14.3 percent, compared to +13.8 percent for its customized benchmark. As more fully described below, the program is comprised of smaller investment management firms focusing primarily on equity and fixed income investments.

INVESTMENT POLICY AND OBJECTIVES

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

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

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

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

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

2. **In nominal terms, equals or exceeds the actuarial investment return assumption of the System adopted by the Board.** The actuarial rate of interest as of June 30, 2012 was 7.75 percent. The actuarial investment return assumption functions as an estimate of the long-term rate of growth of the System's assets. The Board has determined that this assumption will reduce .05% each year for the next four years, until it reaches 7.55%. In adopting an actuarial return assumption, the Board anticipates that the investment portfolio may achieve higher returns in some years and lower returns in other years; and

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

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

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

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

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

The Board's long-term asset class targets and ranges as of June 30, 2013 are shown below.

ASSET CLASS	LONG-TERM POLICY TARGET	RANGE
Domestic Equity		
International Equity		
Global Equity		
Total Public Equity	**35%**	**+/-4%**
Private Equity	10%	+/-4%
Fixed Income	10%	+/-4%
Credit / Debt Strategies	10%	+/-4%
Real Estate	10%	+/-4%
Real Return	14%	+/-4%
Absolute Return	10%	+/-4%
Cash	1%	0-5%
TOTAL ASSETS	**100%**	

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

INVESTMENT PERFORMANCE

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

The investment program realized a return of 10.57 percent for fiscal year 2013. Annualized returns for the 3-, 5-, 10-, 20- and 25-year periods ending June 30, 2013 were 10.0 percent, 4.0 percent, 6.6 percent, 6.6 percent and 7.8%, respectively.

	FY 2013 SRPS Performance	FY 2013 Benchmark Performance	SRPS Exposure June 30, 2013
Public Equity	19.1%		42.3%
Custom Benchmark		16.7%	
U.S. Equity	21.6%		11.6%
S&P 500		20.6%	
Russell 3000		21.5%	
International Equity	16.4%		13.8%
MSCI ACWI ex. U.S.		13.6%	
MSCI EAFE		18.6%	
MSCI Emerging Markets		2.9%	
MSCI World ex U.S.		17.1%	
Global Equity	20.6%		17.0%
MSCI AC World		16.6%	
Private Equity	11.7%		6.2%
Custom State Street PE		8.9%	
Fixed Income	1.1%		16.2%
Custom Benchmark		-0.2%	
BC Aggregate		-0.7%	
BC Global Bond Agg		1.7%	
Credit / Debt Strategies	13.4%		8.4%
Custom Benchmark		5.1%	
BC Credit		0.8%	
BC High Yield		9.5%	
Real Estate	12.6%		5.8%
Custom Benchmark		12.0%	
Wilshire RESI		8.4%	
NCREIF		10.5%	
FTSE EPRA NAREIT		18.4%	
Real Return	-1.5%		12.0%
Custom Benchmark		-3.8%	
Absolute Return	3.4%		7.3%
Custom Benchmark		7.3%	
TOTAL FUND	**10.6%**	**8.5%**	

The SRPS allocation as of June 30, 2013 reflects the ranges and transitional targets as described in the previous section.

ECONOMIC AND CAPITAL MARKET OVERVIEW

Fiscal 2013 proved to be a strong year for most equity and credit risk assets. The Federal Reserve continued its quantitative easing program of monthly purchases of Treasury and mortgage bonds in an effort to keep interest rates depressed while stimulating economic growth and employment. In part as a result, the labor and housing markets continued to gradually recover, which helped support both consumer spending and confidence. Against this backdrop, fiscal policy remained restrictive with anticipated federal spending continuing to tighten with the imposition of across-the-board cuts, or "sequestration," beginning in 2013. U.S. Gross Domestic Product grew at a modest 1.8% rate for the fiscal year while inflation remained in check at 1.4%.

The U.S. public equity market generated a return of 21.5%, as represented by the Russell 3000 index. This return once again exceeded the performance of developed and emerging non-U.S. equities in the fiscal year. The Euro area continued to suffer from very weak economic conditions resulting from bank deleveraging and credit contraction. In spite of this near-zero growth environment, foreign equities were able to produce a 13.6% return, as represented by the MSCI All-Country World ex-U.S. index, as European Central Bank President Mario Draghi calmed investor fears by vowing to do "whatever it takes" to support the unified currency, the Euro. This proclamation also had the effect of reducing the sky-rocketing bond yields of some of the peripheral countries. Emerging markets struggled during the fiscal year, particularly in the second half of the year as expectations of the Federal Reserve tapering its bond-buying program intensified. This led to a depreciation of both the local currency and asset prices in many countries as the yield attractiveness came into question. In addition, the continued economic slowdown in China acted as a drag on performance. For the fiscal year, emerging markets eked out a positive gain of 2.9%, as measured by the MSCI Emerging Markets Index.

The fiscal year proved to be a difficult environment for fixed income investments. Interest rates were near all-time lows as investors had flocked to the relative safety of bonds in 2012, and the Federal Reserve continued its Quantitative Easing (QE) program. In May 2013, the Federal Reserve indicated that it could begin to taper the purchases of securities within the QE program, leading to a rapid rise in long-term rates in May and June. This led to poor fixed income performance, particularly in the last quarter of the fiscal year. The Barclays Capital Aggregate Bond Index returned -0.7% for the fiscal year. However, lower quality bonds with less duration exposure fared much better, as represented by the 9.5% return of the Barclays Capital High Yield Index.

In summary, fiscal year 2013 saw a reversal of what occurred the prior year as stocks experienced strong returns and bonds struggled. Fiscal year 2013 was characterized by continued global central bank intervention resulting in historically low interest rates. This environment compelled many investors to search for higher yield in the form of risk assets. Generally, these risk assets provided strong returns, particularly in the U.S. where the recovery is stronger than most other countries.

PUBLIC EQUITIES

As of June 30, 2013, approximately $17.0 billion of total assets were invested in public equities, representing 42.3 percent of total assets. The public equity program has three components: U.S. equities, international equities and global equities. The program is constructed without a home country bias. Accordingly, the weightings of the three components are adjusted from time-to-time, reflecting the investable global public equity opportunity set.

The System's Terra Maria program, which is discussed below in more detail, is an integral part of the public equities asset class. At June 30, 2013, 74.5 percent of the Terra Maria program was invested in public equities with 43.3 percent in U.S. equities. Each of the managers in the Terra Maria program has an active management mandate.

A. **U.S. Equities**

As of June 30, 2013, approximately $4.6 billion or 11.6 percent of total assets was invested in U.S. public equities. Passively and enhanced passively managed equities totaled $3.1 billion, while actively managed assets outside of the Terra Maria program totaled $331 million and Terra Maria program assets were $1.2 billion, representing 7.8 percent, 0.8 percent, and 3.0 percent of total assets, respectively.

U.S. Equity	$ Millions	% of Total Plan
Passively Managed	**$3,121.5**	**7.8%**
Actively Managed (exclude T.M.)	**$330.9**	**0.8%**
Terra Maria Program	**$1,197.4**	**3.0%**
Total U.S. Equity	**$4,649.9**	**11.6%**

For FY 2013, U.S. equities returned 21.6 percent, compared to 21.5 percent for its benchmark, the Russell 3000 Index.

B. **International Equities**

As of June 30, 2013, approximately $5.5 billion or 13.8 percent of total assets were invested in international equities. Passively managed assets totaled approximately $2.4 billion, while actively managed assets outside of the Terra Maria program totaled approximately $2.2 billion and Terra Maria assets were $0.8 billion, representing 6.1 percent, 5.5 percent and 2.1 percent of total assets, respectively. As more fully described below, the System has instituted a currency overlay program which is designed to protect the value of some foreign equities in a rising dollar environment and reduce volatility.

International Equity	$ Millions	% of Total Plan
Passively Managed	**$2,445.7**	**6.1%**
Actively Managed (exclude T.M.)	**$2,195.6**	**5.5%**
Terra Maria Program	**$844.7**	**2.1%**
Currency Overlay	**$53.6**	**0.1%**
Total International Equity	**$5,539.9**	**13.8%**

For FY 2013, international equities returned 16.4 percent compared to 13.6 percent for its benchmark, the MSCI All Country World ex-U.S. Index.

C. Global Equities

As of June 30, 2013, approximately $6.8 billion or 17.0 percent of total assets were invested in global equities. Actively managed long-only assets outside of the Terra Maria program totaled $4.2 billion; Terra Maria assets were $18.1 million, and actively managed long-short assets totaled $1.3 billion, representing 10.5 percent, 0.05% percent, and 3.2 percent of total assets, respectively. The currency overlay program, which is designed to protect the value of some foreign equities in a rising dollar environment and reduce volatility, is also applied to the global equity program.

Global Equity	$ Millions	% of Total Plan
Passively Managed	**$1,312.6**	**3.3%**
Actively Managed (exclude T.M.)	**$5,492.2**	**13.7%**
Terra Maria Program	**$18.2**	**0.05%**
Currency Overlay	**$16.1**	**0.0%**
Total Global Equity	**$6,839.1**	**17.0%**

For FY 2013, global equities returned 20.6 percent compared to 16.6 percent for its benchmark, the MSCI All Country World Index.

CURRENCY MANAGEMENT PROGRAM

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

During fiscal year 2013, the currency program added value in the international and global public equity programs as the U.S. dollar strengthened relative to other currencies. The gain to the System's portfolio as a result of using this systematic currency overlay strategy was $106.4 million. In addition to having a positive impact on performance during the fiscal year, it has served to reduce volatility and improve the risk/return profile of the international and global equity programs since its inception.

PRIVATE EQUITY

As of June 30, 2013, private equities totaled roughly $2.5 billion, or 6.2 percent of total assets. This asset class includes buyouts, growth equity, venture capital, secondaries and funds-of-funds.

In fiscal year 2013, commitments were made to 17 private equity funds totaling $998 million. Since the inception of the private equity program, commitments have been made totaling roughly $5.4 billion to 116 different funds. In fiscal year 2013, the private equity program returned 11.7 percent, compared to the benchmark's return of 8.9 percent.

In fiscal 2014, we expect that exposure to private equity will continue to increase toward its long-term targeted levels as unfunded commitments of $2.5 billion are drawn down by the fund managers. Since the end of the recession, we have seen a return to a more normal cycle of distributions and capital calls and expect this to continue. It will take several more years for the target allocation of 10.0 percent to be reached in a prudent manner.

FIXED INCOME

Fixed income markets struggled during fiscal 2013 as interest rates rose sharply at the end of the fiscal year. The 10 year treasury rate started the fiscal year at 1.65%, which was mainly driven by the Fed's QE programs and slow, albeit positive, economic growth. The 10 year treasury ended the fiscal year at 2.5%. Lower grade credit securities performed well as credit spreads contracted early in the fiscal year and were relatively unchanged the rest of the fiscal year. As of June 30, 2013, fixed income holdings represented $6.5 billion, or 16.2 percent of total assets. The relative performance of the fixed income portfolio was strong, returning 1.1 percent for the fiscal year, versus -0.2 percent for the fixed income benchmark.

CREDIT/DEBT STRATEGIES

The credit/debt strategies portfolio totaled approximately $3.4 billion, representing 8.4 percent of total plan assets as of June 30, 2013. Investments in this asset class are held in both liquid and illiquid structures. The System has funded the program principally with mezzanine and distressed debt, high yield and investment grade bonds, bank loans and emerging market debt. The portfolio has a blended benchmark of 50 percent Barclays U.S. Credit Index and 50 percent Barclays U.S. High Yield Index. The portfolio returned 13.4 percent for the fiscal year, versus 5.1 percent for its benchmark. The outperformance relative to the benchmark was primarily due to overweight exposure to high yield and the strong performance of the System's distressed debt investments.

In fiscal 2014, we expect the allocation to the credit/debt strategies portfolio will continue to increase toward its long-term target of 10 percent of plan assets, as unfunded commitments are drawn down and additional funds are allocated to credit-related investments.

REAL ESTATE

The real estate portfolio returned 12.6 percent in fiscal year 2013, versus 12.0 percent for its custom benchmark, a blend of the NCREIF, FTSE-EPRA NAREIT and Wilshire indices. At the end of the fiscal year, real estate accounted for 5.7 percent of total assets, valued at $2.3 billion. The program includes publicly-traded securities and private investment funds.

Performance of institutional-quality private real estate is reflected in the results of the NCREIF property index, a widely utilized measure of privately-owned commercial real estate. The NCREIF property index returned 10.5 percent for the twelve months ending March 31, 2013. Returns for all four major property types were positive during the period. Retail was the top performer for the year followed by apartments, industrial and office. Retail returns were driven by strong performance in regional and super regional malls.

Public real estate securities, as measured by the Wilshire Real Estate Securities Index and the FTSE EPRA Global ex-U.S. Index, had one-year returns of 8.4 percent and 18.4 percent respectively.

Cap rates for core properties remain low on an absolute level although at a wide spread to some fixed income alternatives.

REAL RETURN

The real return portfolio totaled approximately $5.1 billion, representing 12.6 percent of total assets as of June 30, 2013. The objectives of this asset class are to provide a level of protection against inflation and event risk, and to enhance diversification for the total fund. As of June 30, 2013, the largest components of the asset class were Treasury Inflation Protected Securities (TIPS) and global inflation-linked bonds totaling $3.0 billion, or 7.5 percent of total assets. This component had returns of -3.9 percent, given low inflation expectations in most markets. There was also an allocation to commodities, representing $1.2 billion, or 3.1 percent of total assets. The remaining assets consist of publicly-traded Master Limited Partnerships (MLPs) and private investments in infrastructure, timber and energy-related assets.

The real return portfolio returned -1.5 percent in fiscal 2013 versus -3.8 percent for its custom benchmark. The main drivers of outperformance relative to the benchmark were commodities, MLPs, timber, and private energy-related investments.

ABSOLUTE RETURN

The Absolute Return portfolio totaled approximately $2.9 billion, representing 7.3 percent of total assets as of June 30, 2013. The portfolio consists of three global macro funds, two multi-asset strategies and two funds-of-funds. Its goal is to provide diversification for the total plan through its low correlation to the broad financial markets. The portfolio underperformed its benchmark in fiscal 2013, returning 3.4 percent versus 7.3 percent for the HFRI Fund of Funds Composite Index.

TERRA MARIA PROGRAM

The Terra Maria program seeks to identify promising smaller or developing managers. The seven existing public market program managers serve as an extension of staff to source investment managers, perform manager due diligence, monitor managers and prepare manager "hire/fire" and funding recommendations. The seven program managers are Attucks Asset Management, Bivium Capital Partners, Capital Prospects, FIS Group, Leading Edge Investment Advisors, Northern Trust Global Advisors and Progress Investment Management Company.

Terra Maria publicly-traded assets totaled approximately $2.8 billion, or 6.9 percent of total assets at June 30, 2013. The program returned 14.3 percent for the fiscal year, compared to the custom benchmark return of 13.8 percent. The relative performance results remain positive since the April 2007 inception of the program.

During fiscal year 2011, the Terra Maria program was expanded to include investments in private equity partnerships. Since the beginning of fiscal year 2011, commitments totaling over $1.6 billion to 21 emerging or women/minority-owned funds of private equity or other alternative assets have been made. In the Terra Maria program as well as in other parts of the fund's portfolio, the Chief Investment Officer has the ultimate responsibility for making manager selection and termination decisions, and for determining funding allocations.

CONCLUSION

Fiscal year 2013 was a very strong year for investment returns as the System substantially outperformed both the actuarial return assumption and the policy benchmark. The fiscal year was marked by continued stimulative monetary policy globally, which kept interest rates near all-time lows. Unlike the prior fiscal year, riskier assets outperformed more conservative assets as investors flocked to higher-return opportunities. The uncertainties going forward are many. Global growth and employment are not as robust as in previous recoveries since the deleveraging process continues nearly five years after the financial crisis. Also unknown are the extent to which global growth and the recovery are dependent on accommodative monetary policy and the effect any pullback might have on the economy and capital markets. It is because of this uncertainty that maintaining a balanced and diversified investment program is paramount.

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

Respectfully submitted,

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

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2013 and 2012
(Expressed in Thousands)

	2013		2012	
	Fair Value	**% of Fair Value**	**Fair Value**	**% of Fair Value**
Fixed Income				
Fixed Income	$ 6,451,411	16.0 %	$ 7,164,345	19.2 %
Credit Opportunity	3,050,085	7.6	2,847,245	7.8
(2) Net cash & cash equivalents (manager)	422,424	1.0	12,463	0.0
Total Fixed Income	9,923,920	24.6	10,024,053	27.0
Public Equity				
Domestic stocks	4,584,119	11.4	4,730,999	12.8
Global stocks	6,754,625	16.8	5,218,166	14.1
International stocks	5,395,887	13.4	5,397,205	14.5
(2) Net cash & cash equivalents (manager)	294,218	0.7	373,729	1.0
Total Equity	17,028,849	42.3	15,720,099	42.4
Absolute Return	2,916,382	7.3	2,533,355	6.8
Private Equity	2,504,902	6.2	2,107,611	5.7
Real Estate (includes private)	2,308,141	5.7	2,342,354	6.4
Real Return	4,531,897	11.3	3,405,411	9.2
(2) Net cash & cash equivalents (manager)	526,081	1.3	293,384	0.8
(1) Cash (non-manager)	510,557	1.3	646,343	1.7
Total Portfolio	$ 40,250,729	100.0 %	$ 37,072,610	100.0 %

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

(2) Includes investment receivables and payables.

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2013
(Expressed in Thousands)

	Fair Value	Investment Advisory Fees
Public Equity		
State Street Global Advisors	$ 4,212,821	$ 2,251
Equity Long Short (1)	1,277,645	7,526
RhumbLine Advisors	1,160,844	75
D E Shaw & Co., LP	850,192	2,155
Baillie Gifford & Company	649,247	3,096
Templeton Investment Counsel, Inc.	625,140	2,149
Acadian Asset Management	594,363	2,049
AQR Capital Management, LLC	577,241	2,043
T. Rowe Price Associates, Inc.	533,432	2,482
Artisan Partners Limited Partnership	530,661	3,120
Brown Capital Management	483,483	2,781
Northern Trust Global Advisors, Inc.(1)	470,757	2,175
Dimensional Fund Advisors, Inc.	428,914	2,259
FIS Group, Inc.(1)	359,134	2,024
Longview Partners Ltd.	324,658	1,837
Capital Prospects, LLC (1)	322,667	1,764
Goldman Sachs Asset Management	319,906	1,532
Leading Edge Invest. Advisors, LLC (1)	317,617	2,515
Bivium Capital Partners(1)	310,041	2,096
Earnest Partners	302,250	1,963
UBS Global Asset Management, Inc.	288,783	1,223
Attucks Asset Management, LLC (1)	279,990	1,914
Relational Investors, LLC	219,608	2,342
Genesis Asset Management	206,397	1,760
Robeco Investment Management	185,317	1,485
Zevenbergen Capital Investment LLC	111,346	650
Record Currency Management	69,745	8,604
Capital International Investments	39,160	368
Other (2)	977,489	16,935
	$ 17,028,849 (3)	$ 83,173 (4)
Fixed Income		
Western Asset Management	$ 1,512,887	$ 2,476
Pacific Investment Management Company	1,488,958	3,171
Aberdeen Asset Management, Inc.	574,882	1,025
Pyramis Global Advisors	571,253	731
Principal Global Investors	563,944	691
State Street Global Advisors	515,934	167
Dodge & Cox	399,385	598
Goldman Sachs Asset Management	394,727	767
Progress Investment Management (1)	293,467	583
Northern Trust Global Advisors, Inc.(1)	153,411	371
Attucks Asset Management, LLC (1)	109,691	376
Capital Prospects, LLC (1)	65,747	146
Leading Edge Invest. Advisors, LLC (1)	62,377	282
Bivium Capital Partners (1)	19,934	110
Other (2)	0	1,441
	$ 6,726,597 (3)	$ 12,935 (4)
Credit/Debt Related (1)	3,197,324	45,006
Real Return (1)	5,035,257	23,130
Absolute Return (1)	2,924,995	27,166
Private Equity Funds (1)	2,504,901	53,838
Real Estate		
Private Real Estate (1)	1,647,741	21,207
Morgan Stanley Investment Management	363,919	2,444
LaSalle Investment Management, Inc.	291,967	930
Record Currency Management	7,362	434
Other (2)	11,260	3,313
Cash - Internally Managed	510,557	N/A
	16,495,283 (3)	177,468 (4)

(1) Sub-managers separately listed on the following pages
(2) Consulting fees and/or investment managers no longer under contract as of 6/30/13
(3) Includes assets invested on behalf of the Maryland Transit Administration
(4) Includes management fees allocated to the Maryland Transit Administration.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENTS RELATIONSHIP LISTINGS

as of June 30, 2013

Private Equity

.06 Ventures II
Abbott Capital Private Equity Fund III
ABS Capital Partners VI LP
ABS Capital Partners VII LP
Adams Street Partners LLC
Advent Central & Eastern Europe IV LP
Advent International GPE V-D LP
Advent International GPE VI-A LP
AIF Capital Asia IV
Alchemy Partners LP
Apax Europe VI-A LP
Apax Europe VII-A LP
Apax France VIII
Apollo Investment Fund VII (AIF) LP
Arcadia II Beteiligungen BT GmbH & Co
Audax Private Equity Fund II LP
Audax Private Equity Fund III LP
Audax Private Equity Fund IV LP
Azure Capital Partners II LP
Azure Capital Partners III LP
Bain Capital Fund IX LP
Bain Capital IX Coinvestment Fund LP
Bain Capital Fund X LP
Bain Capital X Coinvestment Fund LP
BC European Capital VIII LP
BC European Capital IX LP
Black River Capital Partners Fund (Agriculture A) LP
Blackstone Capital Partners VI
Brazos Equity Advisors III LP
Bunker Hill Capital II LP
Calvert Street Capital Partners III
Camden Partners Strategic Fund IV
Carlyle Partners V LP
Charterhouse Capital Partners VIII LP
Charterhouse Capital Partners IX LP
Clayton, Dubilier & Rice Fund VIII
Collar Capital Partners VI
Commonwealth Capital Ventures IV LP
Court Square
Crescent Capital Partners IV
CVC European Equity Partners V-B LP
Dover Street VII LP
ECI 8 LP
ECI 9 LP
Equistone Partners Europe IV
Everstone Capital Partners II LLC
Fort Point Capital I
Frazier Healthcare V LP
Frazier Healthcare VI LP
Frontier Fund
Goldman Sachs Vintage Fund V LP
Graphite Capital Partners VII
Graphite Capital Partners VII Top Up
Great Hill Equity Partners III
Great Hill Equity Partners IV
Hancock Park Capital III
HarbourVest Partners VI Buyout Fund
HarbourVest Partners VI Partnership Fund
Hellman & Friedman Investors VI LLC
Hellman & Friedman Investors VII LLC
HgCapital 5 LP
HgCapital 6A LP
Hg Mercury
IVC Partners III
KKR European Fund III LP
Landmark Equity Partners XIV
Lexington Capital Partners VII
Lion Capital Fund I LP
Lion Capital Fund II LP
Lion Capital Fund III
Littlejohn Fund III LP
Littlejohn Fund IV LP
Lombard Asia
Longitude Venture Partners LP
Longitude Venture Partners II LP
Madison Dearborn Capital Partners V LP
Madison Dearborn Capital Partners VI LP
MD Asia Investors, LP
Navis Asia Fund VI
New Mountain Partners III LP
North Sky Clean Tech Fund IV LP
Orchid Asia V
Partners Group Secondary 2008 LP
Partners Group Secondary 2011 LP
Partners Group Emerging 2011 LP
Permira IV LP 2
Private Equity Partners Fund IV
Quaker BioVentures II
Riverside Capital Appreciation V LP
Riverside Europe Fund IV LP
RLH Investors II LP
RLH Investors III LP
Siris Partners II
Summer Street Capital Fund II LP
Summer Street Capital Fund III LP
Symmetric Partners LP
TA X LP
TA XI LP
TPG Partners VI LP
Triton Fund III
Valhalla Partners II LP
Vector Capital IV LP
Vestar Capital Partners V LP
Vista Equity Partners IV
Wind Point Partners VII LP
Yucaipa American Alliance Fund II LP

Real Estate

AEW Senior Housing Fund II
CB Richard Ellis Strategic Partners Europe Fund III
CB Richard Ellis Strategic Partners UK Fund III
CB Richard Ellis Strategic Partners US Value 5 LP
CB Richard Ellis Strategic Partners US Value 6 LP
Chesapeake Maryland Limited Partnership
Europe Fund III LP
Federal Capital Partners II
Frogmore Real Estate Partners II
GI Partners Fund III LP
JER Real Estate Partners Fund IV LP
JP Morgan Investment Management Inc
Lion Industrial Trust
Lone Star Real Estate Fund II
Lubert Adler Real Estate Fund III
Lubert Adler Real Estate Fund VI
Lubert Adler Real Estate Fund VI-A
MGP Asia Fund III LP
PRISA II (Prudential Real Estate Investors)
Realty Associates Fund IX
Realty Associates Fund X
Rockwood Capital Real Estate Partners Fund VIII LP
Secured Capital Japan Real Estate Partners Asia LP
Secured Capital Japan Real Estate Partners IV LP
Starwood Debt Fund II LP
Starwood Hospitality Fund II

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

INVESTMENTS RELATIONSHIP LISTINGS

as of June 30, 2013

(continued)

Real Return

Alinda Infrastructure Fund II
Arbalet Commodity Strategies Fund
Astenbeck Commodities Fund
Black River Commodity Trading Fund
BlackRock DJ-UBS Commodity Fund
CCM Diversified I
Edesia Commodities Dynamic Agriculture Fund
EIF Power Fund IV
First Reserve Fund XII LP
Global Timber Investors 9
Gresham Investment Management LLC
Hancock Timber X LP
Harvest Fund Advisors
Koppenberg Macro Commodity Fund
Natural Gas Partners VIII LP
Natural Gas Partners IX LP
Natural Gas Partners X LP
NGP Midstream & Resources LP
PIMCO Global Inflation Linked Bonds
Quantum Energy Partners IV LP
Quantum Energy Partners V LP
RMS Forest Growth III
Schroder Commodity Fund
SSGA US Tips
Taylor Woods Partners
Timbervest Partners III LP
Tortoise Capital Advisors
Vermillion/Celadon Commodities Fund
Western Global Inflation Linked Bonds
White Deer Energy

Absolute Return

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

FIXED INCOME RELATIONSHIP LISTINGS

as of June 30, 2013

Credit/Debt Related

AG-GECC Public-Private Investment Fund LP
Alchemy Special Opps Fund II
Anchorage Capital Group
Blackrock Credit Investors II
Brigade Leveraged Capital Structures Fund LP
CarVal Credit Value Fund A LP
CarVal Credit Value Fund II
Clearlake Capital Group
Crescent Capital Mezzanine Partners VI
EIG Energy Fund XV
Falcon Strategic Partners III
Falcon Strategic Partners IV
King Street Capital
KKR Flexible Credit
KKR Mezzanine Partners 1
LBC Credit Partners II LP
Marathon Public Private Investment Fund
Merit Mezzanine Fund V
Neuberger Berman Flexible Credit
Oaktree Capital Management
Oaktree Opportunity Fund VIII
Oaktree Opportunity Fund VIIIB
Oaktree European Principal Fund III
Oaktree Principal Fund V
Park Square Capital Partners II
Partners Group European Mezzanine 2008 LP
Peninsula Fund V
Perella Weinberg Partners
Prudential Capital Partners III
Prudential Capital Partners IV
SSGA Emerging Markets Debt
TA Subordinated Debt Fund III
Varde Fund X
Wayzata Investment Partners III

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

TERRA MARIA PROGRAM
as of June 30, 2013

Terra Maria Program

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

Bold denotes Program Manager for the Terra Maria Program

Equity Long Short

Amici Qualified Associates
Hoplite OnShore
Indus-Pacific Opportunities Fund
Marshall Wace Eureka Fund
Neon Liberty Capital Management
Scopia Capital Management
Stelliam Fund
Tiger Consumer Management

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

Brokers (1)	Total Shares	Total Commission
State Street Global Markets	133,702	$ 619
J P Morgan Securities	59,288	554
Goldman Sachs	73,731	526
Credit Suisse Securities	204,670	491
Merrill Lynch	82,317	451
Morgan Stanley	57,597	436
Deutsche Bank	67,008	378
Barclays Capital, Inc.	22,454	343
UBS	71,054	315
Instinet	94,265	290
Citigroup Global Markets	27,567	287
Loop Capital Markets	22,626	233
Pershing	28,020	231
Converge Execution Solutions LLC	6,435	194
Investment Technology Group	17,835	167
Jefferies & Company	19,220	165
Societe Generale Bank and Trust	14,573	159
Hong Kong and Shanghai Banking Corp	86,322	113
Other Broker Fees	460,626	3,485
Total broker commissions	1,549,310	$ 9,437

(1) Proceeds from the sale and disbursements for the purchase of securities are reported net of brokers' commissions. As such, brokers' commissions are not included as investment expenses on the Statements of Changes in Plan Net Assets. Other broker fees include 322 brokers each receiving less than$100,000 in total commissions.

For the fiscal year ended June 30, 2013, total domestic equity commissions averaged .71 cents per share, and total international equity commissions averaged 10.23 basis points per share.

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

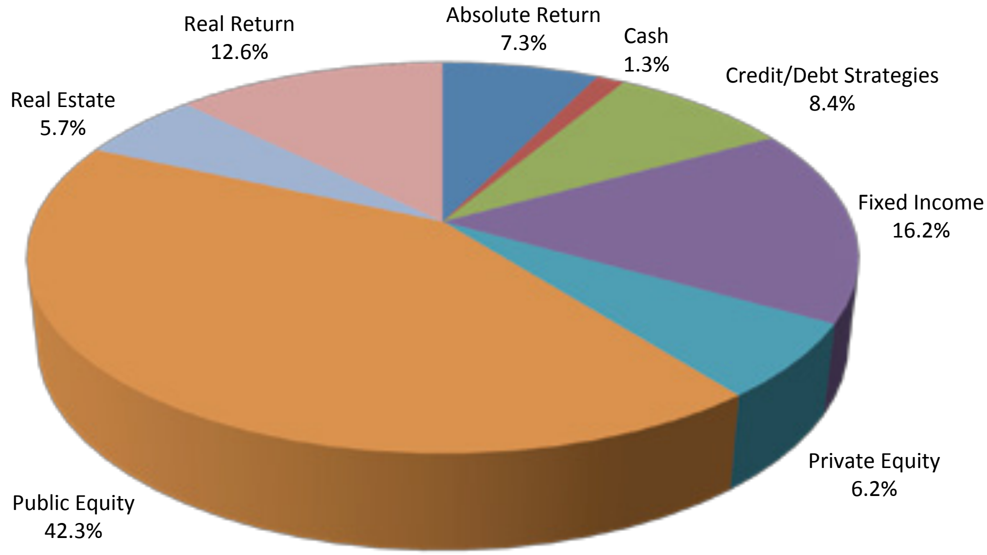
LARGEST STOCK & BOND HOLDINGS AT MARKET
as of June 30, 2013

EQUITY INCOME SECURITIES:	Shares	Market Value
Apple, Incorporated	414,286	$ 164,090,399
Google, Incorporated CLA	148,546	130,775,442
Exxon Mobil Corporation	1,370,000	123,779,500
Amazon.Com Inc	388,439	107,865,626
Microsoft Corporation	2,748,323	94,899,593
Roche Holding AG Genusschein	381,237	94,689,737
Nestle SA Reg	1,346,643	88,172,630
JP Morgan Chase & Company	1,635,640	86,345,436
Johnson & Johnson	958,798	82,322,396
Pfizer Inc.	2,811,394	78,747,146
HSBC Holdings PLC	7,527,848	77,867,282
Chevron Corporation	639,330	75,658,312
General Electric Company	3,186,968	73,905,788
Wells Fargo & Company	1,551,049	64,011,792
Berkshire Hathaway Inc. CL B	552,518	61,837,815

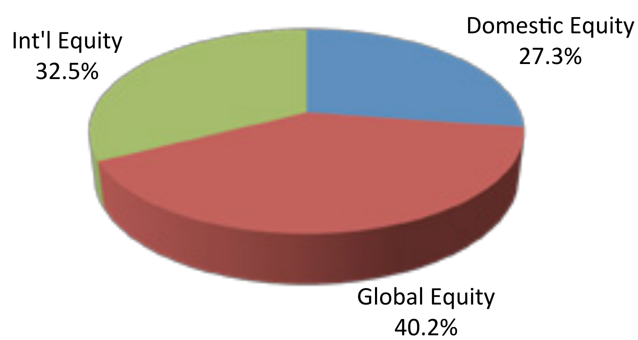
FIXED INCOME SECURITIES:	Par Value	Market Value
United States Treasury Inflation Linked, 0.125%, due Jan 15, 2023	$ 212,631,324	$ 206,170,584
Federal National Mortgage Assn., TBA 3.0%, due Dec 1, 2099	167,145,000	163,305,679
United States Treasury Inflation Linked, 0.125%, due Jan 15, 2022	143,137,442	139,905,398
United States Treasury Inflation Linked, 2.375%, due Jan 15, 2025	114,153,952	135,985,896
United States Treasury Inflation Linked, 0.125%, due Jan 15, 2022	116,007,607	113,623,650
United States Treasury Inflation Linked, 0.125%, due Apr 15, 2017	109,789,610	112,646,336
United States Treasury Global Inflation Linked, 1.25%, due Nov 22, 2027	60,457,065	109,686,780
Federal National Mortgage Assn., TBA 3.5%, due Dec 1, 2099	107,410,000	109,038,336
United States Treasury Inflation Linked, 3.875%, due Apr 15, 2029	74,247,275	107,008,885
United States Treasury Inflation Linked, 0.125%, due Apr 15, 2016	101,607,353	104,218,662
United States Treasury Inflation Linked, 1.125%, due Jan 15, 2021	94,901,122	101,492,005
United States Treasury Global Inflation Linked, 0.125%, due Mar 22, 2024	62,903,738	99,126,962
United States Treasury Bill, .01%, due Jul 25, 2013	96,643,000	96,641,550
United States Treasury Bill, .01%, due Aug 8, 2013	90,895,000	90,892,128
United States Treasury Bill, .01%, due Nov 29, 2013	82,984,000	82,957,047

A complete list of portfolio holdings is available upon request.

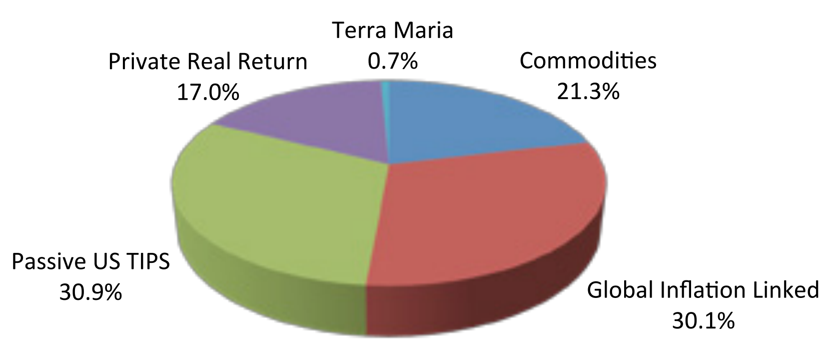
INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2013



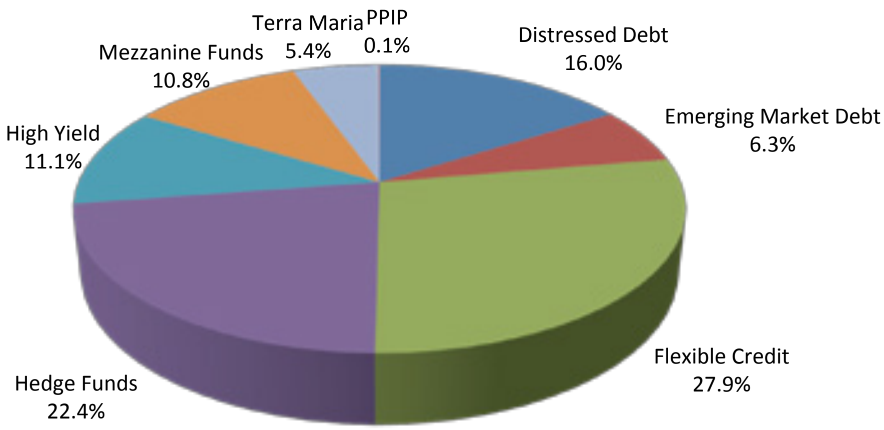
PUBLIC EQUITY DISTRIBUTION BY TYPE
as of June 30, 2013



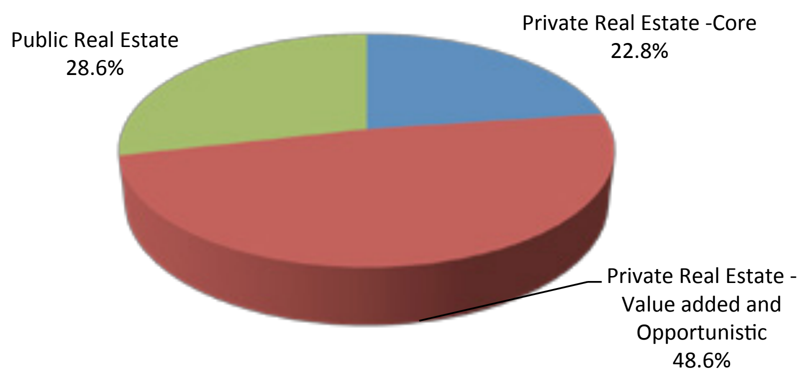
REAL RETURN DISTRIBUTION BY TYPE
as of June 30, 2013



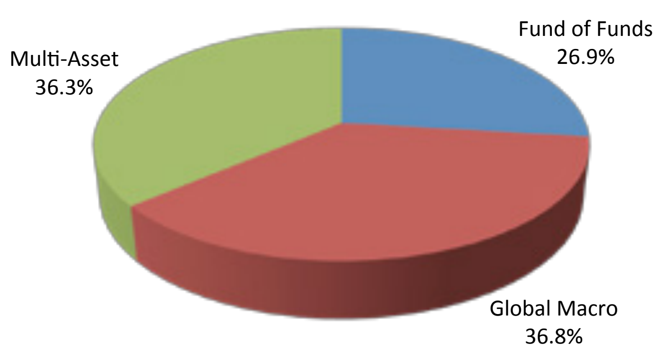
CREDIT/DEBT STRATEGIES DISTRIBUTION BY TYPE
as of June 30, 2013



REAL ESTATE DISTRIBUTION BY TYPE
as of June 30, 2013

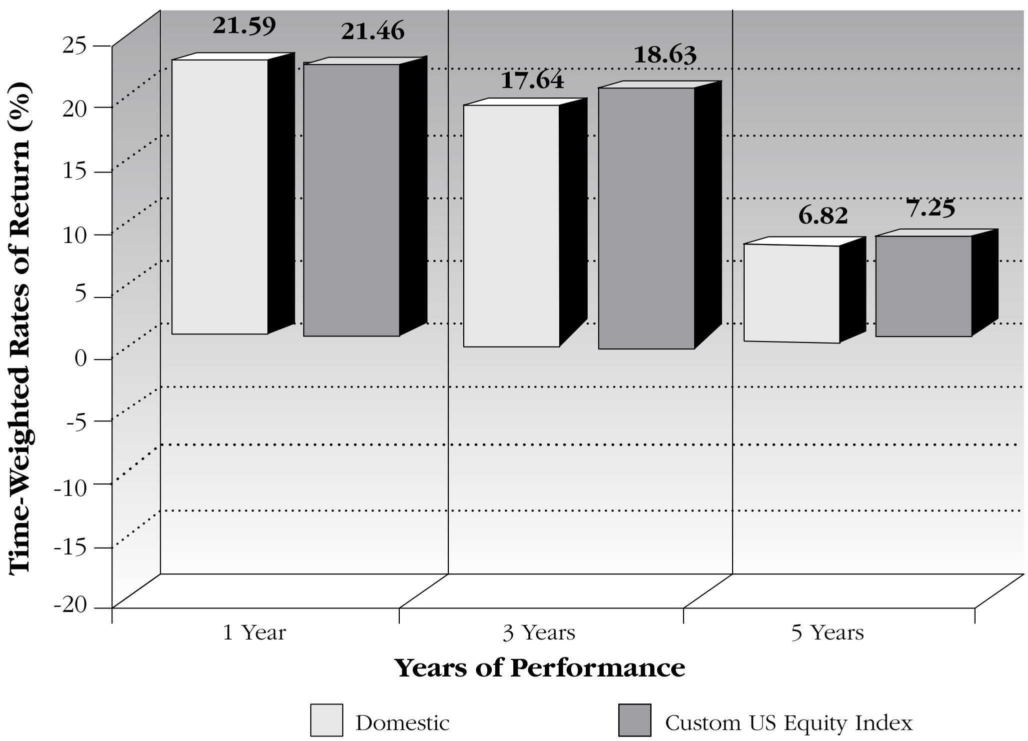


ABSOLUTE RETURN DISTRIBUTION BY TYPE
as of June 30, 2013

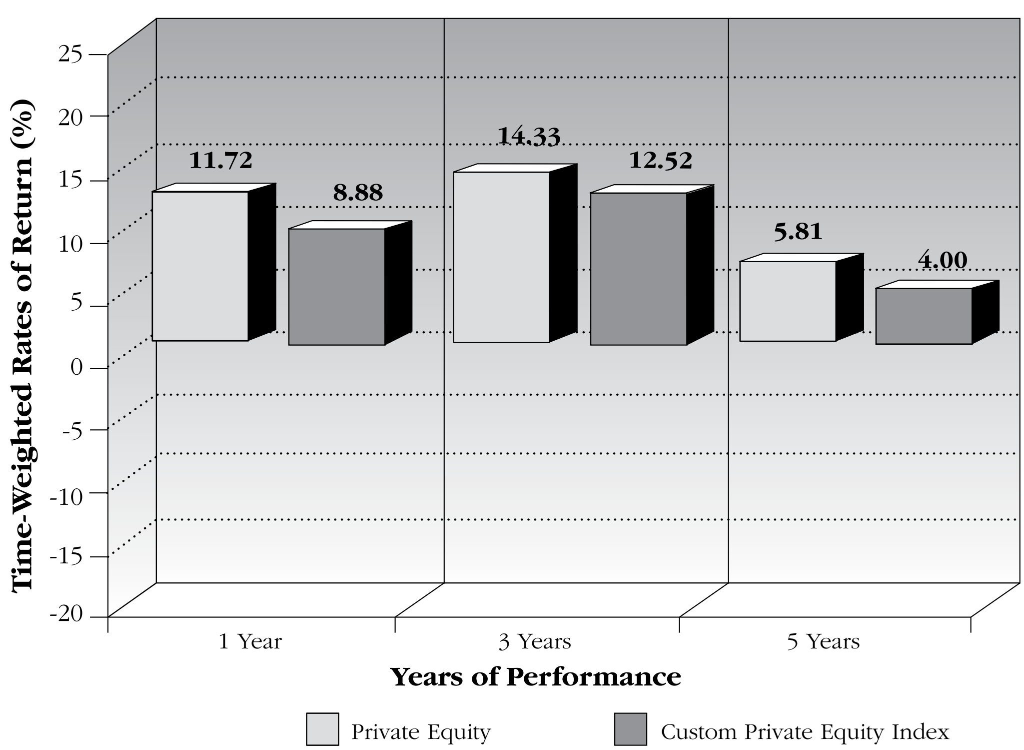


Comparative Investment Returns Ending June 30, 2013

DOMESTIC EQUITY

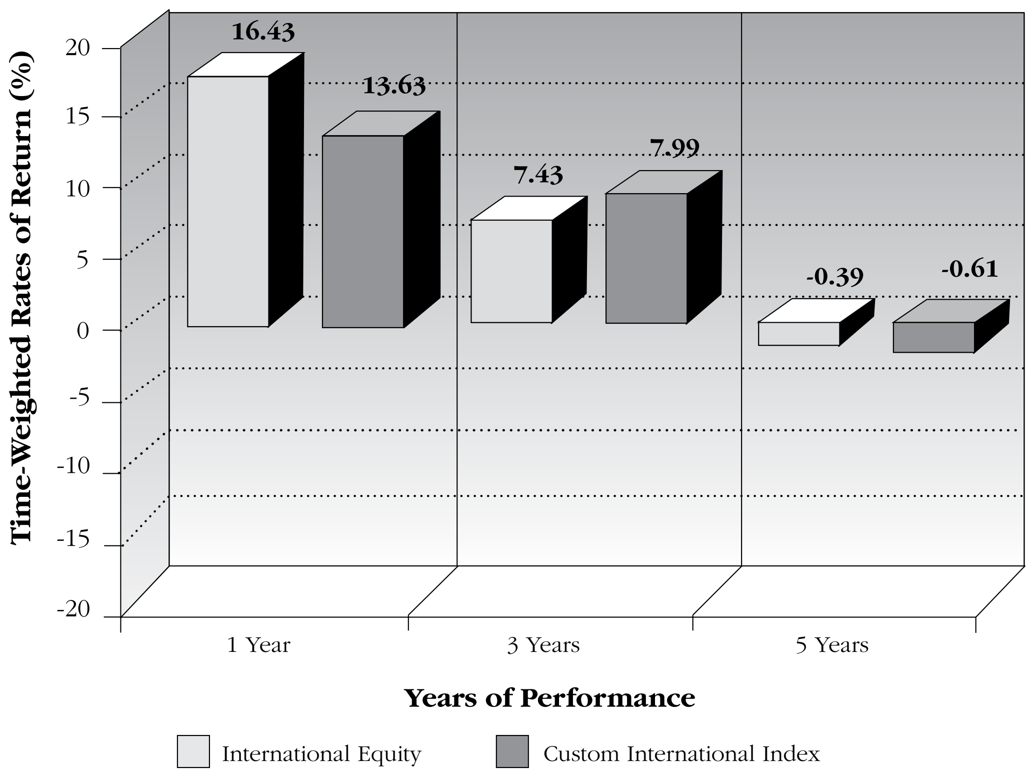


PRIVATE EQUITY

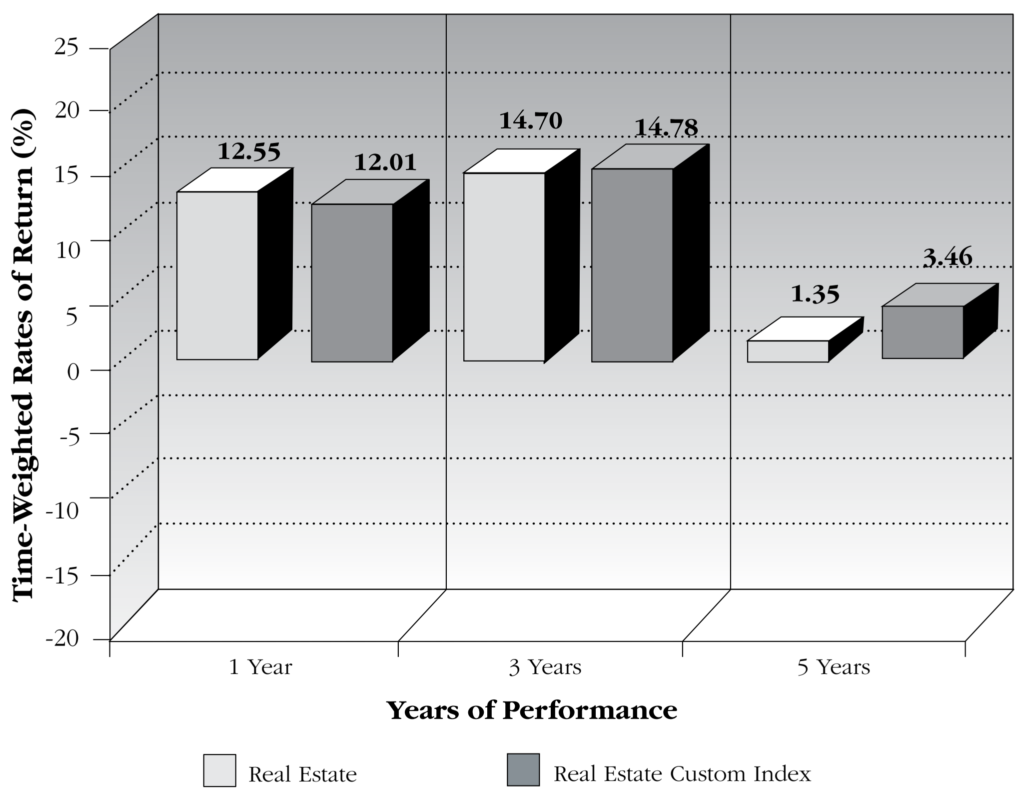


Comparative Investment Returns Ending June 30, 2013

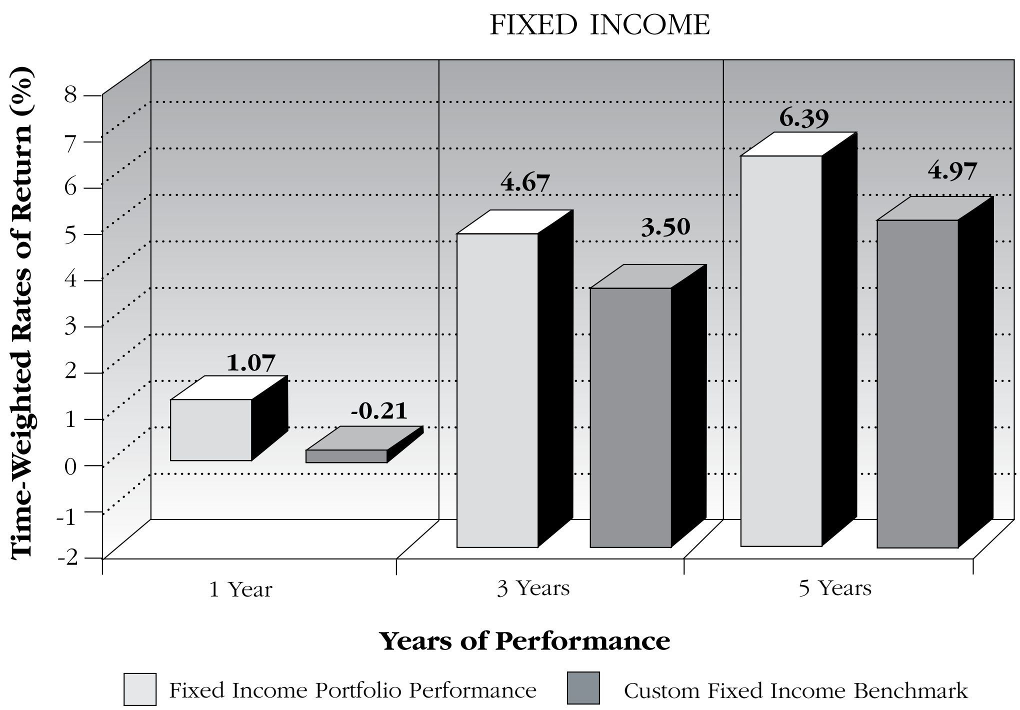
INTERNATIONAL EQUITY



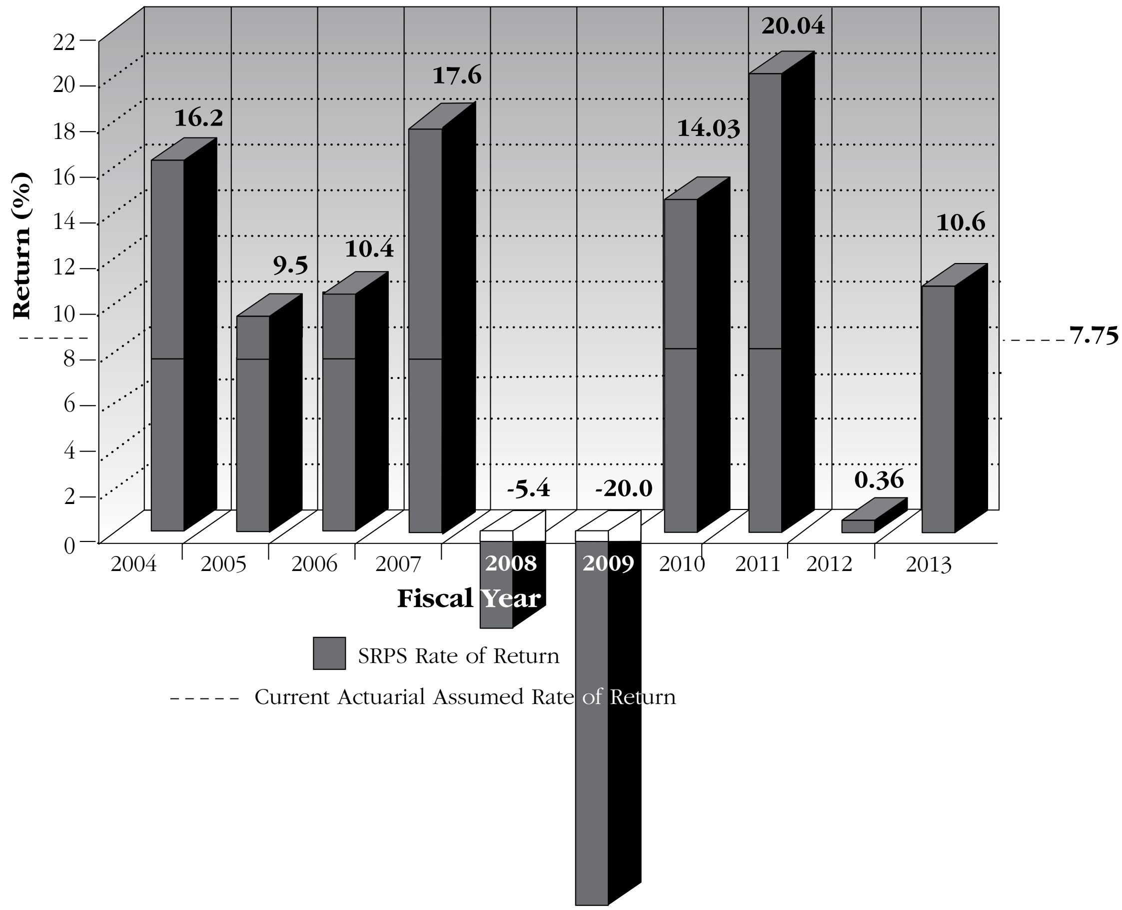
REAL ESTATE



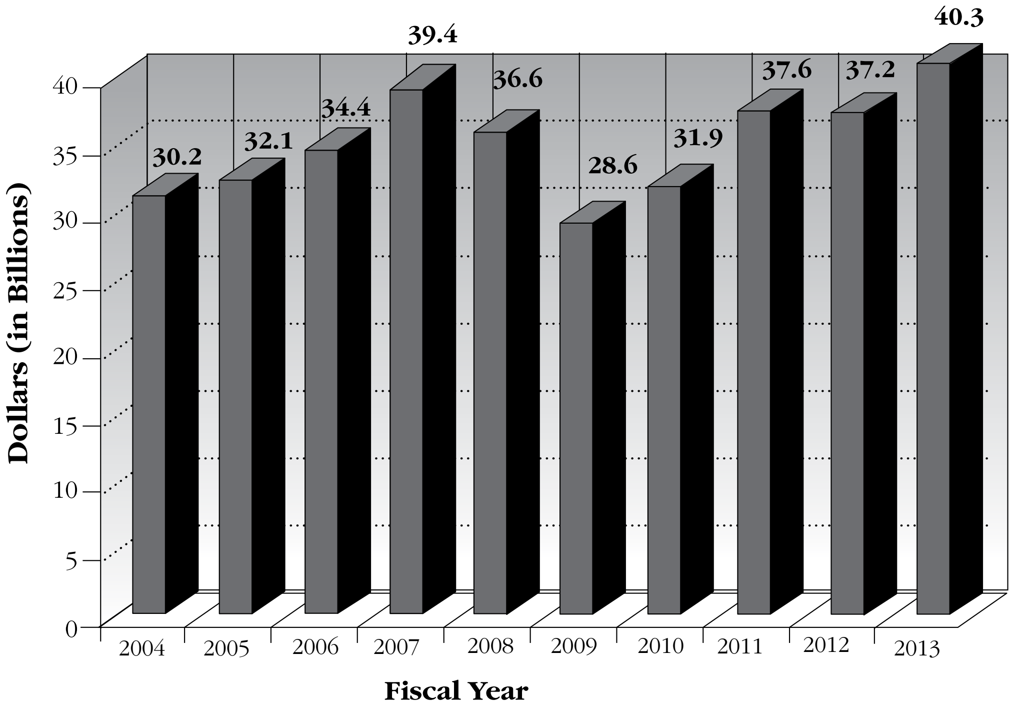
Comparative Investment Returns Ending June 30, 2013



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



Actuarial Section

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October 28, 2013

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

Dear Members of the Board:

At your request, we have performed our annual actuarial valuation of the Maryland State Retirement & Pension System as of June 30, 2013. The actuarial information provided herein should only be considered in conjunction with the entire actuarial valuation report dated October 28, 2013.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain relatively level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus a level percent of payroll amortization of the unfunded actuarial liability over a single 25-year closed period as of June 30, 2013. Maryland law contains provisions (i.e. a corridor approach) to mitigate annual fluctuations in contribution rates. Due to this funding approach, the contribution rates currently being appropriated for the Employees' and Teachers' Combined Systems are lower than the actuarially determined rates for GASB No. 27 accounting purposes. However, the corridor approach is being phased out over a 10-year period based on recent legislation.

Assumptions

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

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

The results and conclusions of this report are only valid for the July 1, 2013 plan year and should not be interpreted as applying to future years. The actuarial assumptions reflect our understanding of the likely future experience of the plans in the program and the assumptions as a whole represent our best estimate for the future experience of the those plans. The accuracy of the results presented in this report is dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the plans could vary from our results.

Reliance on Others

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

Supporting Schedules

Certain information presented in the System's June 30, 2013 CAFR was derived from our June 30, 2013 actuarial valuation report. In this regard, we were responsible for producing all supporting schedules to be found in the Actuarial Section. These schedules include the Summary of Valuation Results, UAAL and Actuarial Gain/Loss, Asset Gain/Loss, Assets/Liabilities Trend, Benefits vs. Contributions Trend, State Contribution Rate Trend, Accounting Statement Information, Summary of Unfunded Liabilities/Solvency Test, Summary of Retirees and Beneficiaries Added to and Removed from Rolls, Summary of Principal Results by System, and the Schedule of Active Membership by Plan.

Additionally, we were responsible for producing all data presented in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to the Required Supplementary Information shown in the Financial Section of the 2013 CAFR. Information pertaining to valuations prior to 2009 was determined by previous actuarial firms.

Certification

On the basis of the foregoing, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with Maryland's Annotated Code and generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board. Brad L. Armstrong, Brian B. Murphy, and Amy Williams are independent from the plan sponsor and System and are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

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

BOARD SUMMARY

This section presents the results of the June 30, 2013 annual actuarial valuation of the Maryland State Retirement and Pension System (MSRPS). The purposes of the annual valuations are as follows:

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

A summary of the primary valuation results as of June 30, 2013 is presented on the following page.

SUMMARY OF VALUATION RESULTS
JUNE 30, 2013
($ IN MILLIONS)
(STATE AND MUNICIPAL)

	2013							2012	
	TCS	ECS	State Police	Judges	LEOPS	CORS[1]	Total	Total	% Change
A. Demographic Information									
1. Active Number Counts	104,028	84,677	1,320	288	2,407	90	192,810	192,994	-0.1%
2. Active Payroll	$ 6,185	$ 4,030	$ 80	$ 40	$ 138	$ 5	$ 10,478	$ 10,337	1.4%
3. Retired Number Counts	66,390	67,193	2,428	378	1,518	18	137,925	132,493	4.1%
4. Annual Benefits for Retired Members[2]	$ 1,759	$ 978	$ 110	$ 27	$ 50	$ 1	$ 2,923	$ 2,812	3.9%
5. Deferred / Inactive Number Counts	23,555	27,651	84	10	251	1	51,552	51,230	0.6%
6. Total Number Counts	193,973	179,521	3,832	676	4,176	109	382,287	376,717	1.5%
B. Assets									
1. Market Value (MV)	$ 24,470	$ 13,670	$ 1,189	$ 362	$ 656	$ 17	$ 40,363	$ 37,179	8.6%
2. Rate of Return on MV[3]							10.44 %	0.28 %	
3. Funding Value (FV)	$ 23,846	$ 13,327	$ 1,164	$ 355	$ 643	$ 17	$ 39,351	$ 37,248	5.6%
4. Rate of Return on FV							7.49 %	4.42 %	
5. Ratio of FV to MV							97.5%	100.2%	
C. Actuarial Results									
1. Normal Cost as a % of Payroll	12.62%	11.12%	33.28%	36.18%	21.89%	14.60%	12.42%	12.58%	
2. Actuarial Accrued Liability (AAL)									
a. Active	$ 14,626	$ 8,539	$ 339	$ 152	$ 393	$ 9	$ 24,058	$ 23,661	1.7%
b. Retired	20,216	11,728	1,532	284	728	9	34,498	32,779	5.2%
c. Deferred/Inactive	688	780	11	2	22	0	1,504	1,429	5.2%
d. Total	$ 35,530	$ 21,047	$ 1,883	$ 439	$ 1,143	$ 18	$ 60,060	$ 57,869	3.8%
3. Unfunded AAL (UAAL)	$ 11,685	$ 7,720	$ 718	$ 84	$ 500	$ 1	$ 20,709	$ 20,621	0.4%
4. Funded Ratio	67.11 %	63.32 %	61.84 %	80.87 %	56.22 %	92.10 %	65.52 %	64.37 %	

D. Contribution Rates[4]	STATE PORTION ONLY								
	FY 2015							FY 2014	
1. Pension Contributions									
a. Employer Normal Cost	5.64%	4.77%	25.28%	29.93%	15.25%		5.72%	5.89%	
b. Member Contribution Rate	6.98%	6.72%	8.00%	6.25%	7.00%		6.70%	6.69%	
c. UAAL Contribution Rate	11.78%	14.55%	57.78%	12.81%	26.12%		13.19%	15.53%	
d. Total	24.40%	26.04%	91.06%	48.99%	48.37%		25.61%	28.11%	
2. Total Actuarial Employer Rate (1.a + 1.c)	17.42%	19.32%	83.06%	42.74%	41.37%		18.91%	21.42%	
3. Total Employer Budgeted Rate									
a. Prior Year Budgeted Rate	14.71%	14.05%							
b. 28% * (2 - 3a.)	0.76%	1.48%							
c. Employer Budgeted Rate	15.47%	15.53%	83.06%	42.74%	41.37%		16.41%	15.43%	
d. Reinvested Savings Rate	3.17%	2.77%	5.00%	0.00%	5.19%		3.07%	3.11%	
e. Total Employer Budgeted Rate	18.64%	18.30%	88.06%	42.74%	46.56%		19.48%	18.54%	

[1]Includes CORS Municipal only. State CORS included in ECS.
[2]Retiree benefit amounts include the cost-of-living-adjustment granted July 1, 2013 and July 1, 2012, respectively.
[3]Actuarial calculations may differ from figures reported by State Street.
[4]Contribution rates shown in the "Total" column are for informational purposes only and are not used for funding purposes.
Totals may not add due to rounding.

ACTUARY"S COMMENTS

The System's assets earned **10.44%**[1] for the year ended June 30, 2013, which is more than the 7.75% assumed rate of investment return. Recognized asset losses from fiscal years 2009 and 2012 offset recognized asset gains from fiscal years 2010, 2011, and 2013 in the actuarial value of assets as of June 30, 2013. This resulted in a loss under the asset smoothing method.

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

Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2012	$20,621
Expected UAAL as of June 30, 2013 before changes	21,144
Changes in benefit provisions:	-
Changes in methods and assumptions:	57
Expected UAAL as of June 30, 2013 after changes	21,201
Actual UAAL as of June 30, 2013	20,709
Net actuarial gain (loss)	492
Actuarial gain (loss) by source:	
Actuarial investment experience	(98)
Actuarial accrued liability experience	590

In relative terms, the overall System funding ratio of actuarial value of assets to liabilities increased from 64.37% in 2012, to **65.52%** this year. If market value of assets were the basis for the measurements, the plan would have increased from 64.25% to 67.20% funded. The market value of assets exceeds the retiree liabilities by about 17% in total, an increase from 13% last year. This is referred to as a short condition test and is demonstrated in the chart at the bottom of the page. It is looking at the current retiree liabilities as the benefits that will be paid the soonest since these benefits are already in pay status. Active liabilities and deferred vested liabilities do not have associated immediate cash flow requirements. Although the market value of assets exceeds the current retiree liabilities in total, this is not true for two of the smaller systems. For State Police and LEOPS, the market value of assets is less than the retiree liabilities.

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

	TCS	ECS	State Police	Judges	LEOPS	CORS	Total
Market Value of Assets (MVA)	$22,502	$24,470	$ 13,670	$ 362	$ 656	$ 17	$40,363
Retiree Liability	19,248	20,216	11.728	284	728	9	34,498
MVA as % of Retiree Liability	117%	121%	117%	128%	90%	191%	117%

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

In the 2013 legislative session, the Legislature changed the method used to fund the State Systems of the MSRPS. The unfunded liability for each System is being amortized over a single closed 25-year period beginning July 1, 2014 and ending June 30, 2039. In addition, the corridor method used by the Teachers' Combined System and the State portion of the Employees' Combined System, which was established in 2001, is being phased-out over a ten-year period beginning in fiscal year 2015. Under the corridor funding method, the State appropriation is fixed at the prior fiscal year's rate, but adjusted to reflect the cost of any legislative benefit changes, as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded. Once the ratio falls outside this corridor, the appropriated or budgeted rate will be adjusted 28% in fiscal year 2015 (36% in fiscal year 2016, etc.) of the way toward the underlying actuarially calculated rate, with the exception of the cost of/or the savings from legislative benefit changes, which are fully recognized regardless of whether the Systems are within or outside of the corridor. The Teachers' Combined System (TCS) has remained out of the corridor since the June 30, 2005 valuation and the State portion of the Employees Combined System (ECS) remained out of the corridor since the June 30, 2004 valuation resulting in contribution rates for TCS and ECS that are less than actuarial rates.

In 2011, the General Assembly enacted pension reforms which were effective July 1, 2011, and affect both current actives and new hires. The member contribution rate was increased for members of the Teachers' Pension System and Employees' Pension System from 5% to 7%, and from 4% to 6% in fiscal year 2012 and 7% in fiscal year 2013 and beyond for LEOPS. In addition, the benefit attributable to service on or after July 1, 2011, is subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index and capped at 2.5% or 1.0% based on whether the market value investment return from the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.70%). There were also changes to the provisions for members hired on or after July 1, 2011. The valuation as of June 30, 2012, was the first valuation which included members covered under the Reformed Benefit Plans applicable to members hired on or after July 1, 2011.

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

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

The actuarially determined rates exclude the corridor funding method and are equal to the employer normal cost plus the unfunded actuarial accrued liability contribution rate. The unfunded actuarial contribution rate is equal to the payment resulting from amortizing the unfunded liability as a level percentage of pay over a single 25-year closed period as of June 30, 2013.

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

The budgeted rate for TCS is about 89% (91% with the addition of reinvested savings) of the actuarially determined rate and the GASB ARC rate, and the budgeted rate for ECS is about 80% (83% with the addition of reinvested savings) of the actuarially determined rate and the GASB ARC rate.

FY2014 Contribution Rates (State Portion Only)

	TCS	ECS	State Police	Judges	LEOPS	Total
Budgeted Contribution Rate [1]	15.47%	15.53%	83.06%	42.74%	41.37%	16.41%
Actuarially Determinde Rate [1]	17.42%	19.32%	83.06%	42.74%	41.37%	18.91%
Budgetd/Actuarially Determined Rate	88.81%	80.38%	100.00%	100.00%	100.00%	86.78%
Budgeted Contribution Rate with Reinvested Savings	18.64%	18.30%	88.06%	42.74%	46.56%	19.48%
GASB Annual Required Contribution	20.59%	22.09%	88.06%	42.74%	46.56%	21.96%
Budgeted with Reinvested Savings/ GASB ARC Rate	90.53%	82.84%	100.00%	100.00%	100.00%	88.72%

1. Exludes reivested savings.

The budgeted rates with reinvested savings are based on a projection of payroll. It is our understanding that the Retirement Agency will monitor contributions to ensure that the System receives the proper amount of reinvested savings during fiscal year 2015.

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

Under the present circumstances, the corridor method results in contributions that are less than those determined actuarially and those needed to make sufficient progress toward funding the current unfunded liability. However, with the phasing out of the corridor method and the inclusion of reinvested savings, the return to actuarial funding is on the horizon.

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

PRIOR YEAR EXPERIENCE

Assets (State and Municipal)

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

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

(STATE AND MUNICIPAL)

Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2012 Value	$ 37,179	$ 37,248
June 30, 2012 Municipal Withdrawals /New Entrants	–	–
Employer Contributions	1,643	1,643
Member Contributions	711	711
Benefit Payments	(3,015)	(3,015)
Expected Investment Earnings (7.75%)	2,856	2,862
Expected Value June 30, 2013	$ 39,374	$ 39,449
INVESTMENT GAIN (LOSS)	**(990)**	**(98)**
June 30, 20123 Value	$ 40,363	$ 39,351
Figures may not add correctly due to rounding		

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

Trends (State and Municipal)

One of the best ways to measure or evaluate the financial condition of a pension plan is to examine the historical trends that are evolving. Below, we present three charts which present trend information from 1993 through the end of 2013, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

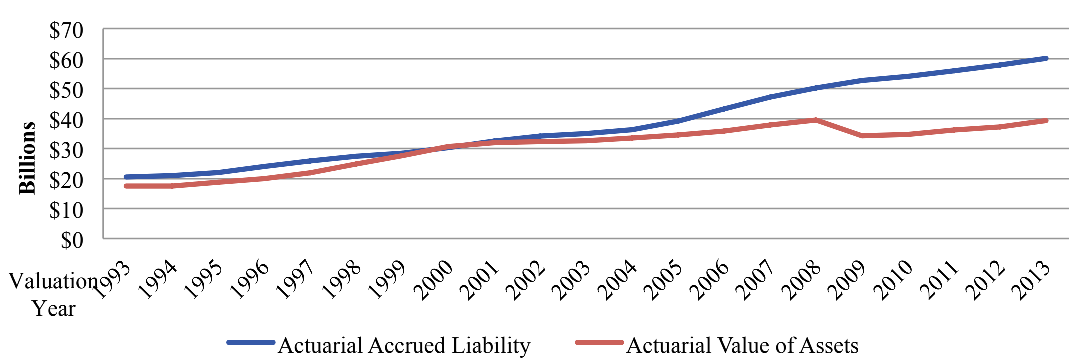


Chart B:
Benefits vs
Contributions

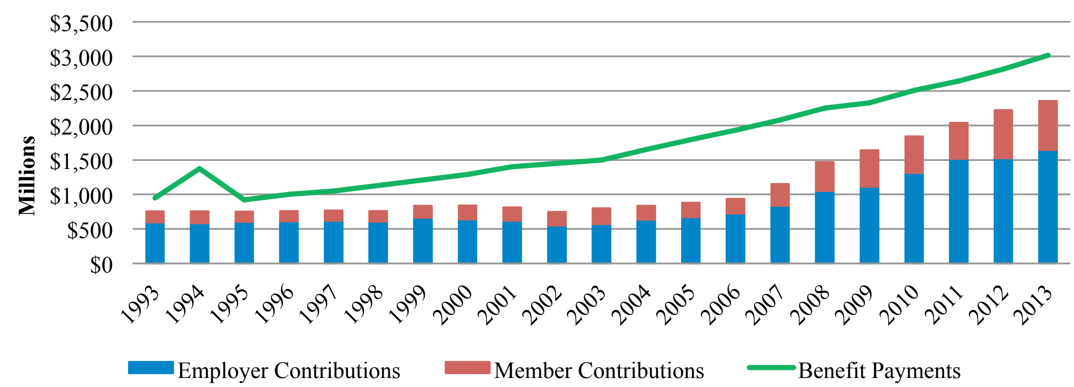
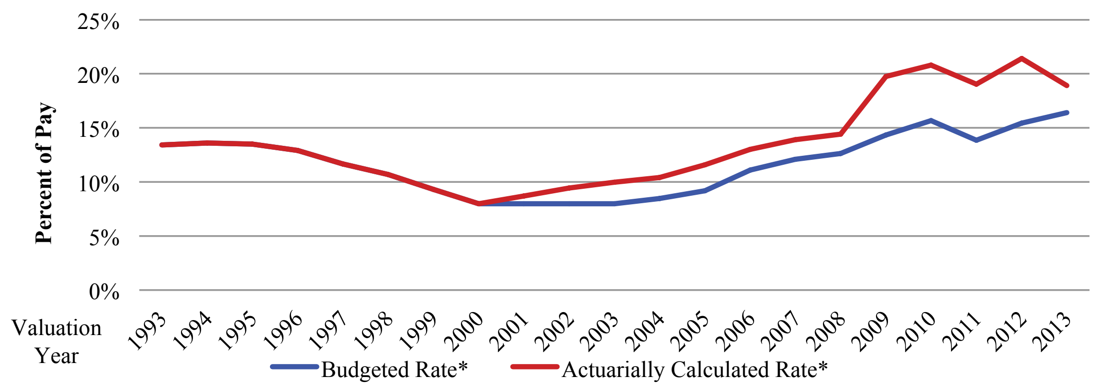


Chart C:
State Contribution
Rate



Comments

Chart A displays a comparison of the actuarial value of assets and the actuarial accrued liability. As of June 30, 2013, the actuarial value of assets under the 5-year asset smoothing method are 97% of the market value of assets, compared with 100% as of June 30, 2012.

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

Finally, **Chart C**, looks at the composite actuarially determined and budgeted State contribution rates. The budgeted contribution rates by System determine the fiscal year State appropriation. It shows the impact of the 1990's decade's sustained investment gains, a continuous lowering of the rate until 2000. Effective with the 2001 valuation, the State appropriations were performed under a corridor funding method for the two largest plans. The appropriation remained essentially level for a few years before increasing with the 2004 valuation. In the absence of significant favorable investment and/or demographic experience, the contribution rates can be expected to increase to the level indicated if the corridor method had not been adopted. Without the corridor method, the State contribution in FY 2015 would be 2.50% of payroll higher than the amount to be budgeted under the corridor method. The actual contribution rate for FY 2015 is therefore 13% less than the actuarially determined rate.

Legislation enacted in 2013 is phasing out the corridor funding method for TCS and ECS over a 10-year period beginning with the valuation as of June 30, 2013. The budgeted rate is expected to increase and will converge with the actuarial rate for TCS and ECS at the end of the 10-year period.

Chart C further indicates that since inception, the corridor method had consistently acted to reduce the State's contribution. The new amortization method and the phasing out of the corridor with result in budgeted contribution rates that are equal to the actuarially determined ones within the next 10 years.

SUMMARY OF UNFUNDED ACTUARIAL
(STATE AND

Valuation Date June 30,	Actuarial Liabilities For: Active Member Contributions	Actuarial Liabilities For: Retirees, Term Vested and Inactives	Actuarial Liabilities For: Active Members Employer Fin. Portion	Total Liabilities	Actuarial Value of Assets
2004	$ 2,064,065,193	$ 19,041,901,524	$ 15,219,737,348	$ 36,325,704,065	$ 33,484,656,570
2005	2,148,065,879	20,975,329,441	16,010,054,447	39,133,449,767	34,519,500,395
2006	2,217,897,868	22,086,452,920	18,939,141,669	43,243,492,457	35,795,025,134
2007	2,489,643,667	25,790,846,645	18,863,863,688	47,144,354,000	37,886,935,596
2008	2,787,163,875	27,224,603,428	20,232,279,697	50,244,047,000	39,504,284,202
2009	2,959,415,829	28,914,824,184	20,854,931,317	52,729,171,330	34,284,568,617
2010	3,389,265,622	29,900,015,751	20,795,799,745	54,085,081,118	34,688,345,696
2011	3,732,934,034	31,901,090,890	20,283,517,888	55,917,542,812	36,177,655,993
2012	4,274,269,025	34,208,190,190	19,386,686,257	57,869,145,472	37,248,400,780
2013	4,818,674,217	36,001,888,558	19,239,528,603	60,060,091,378	39,350,969,353

SUMMARY OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
(STATE AND MUNICIPAL)

Fiscal Year Ended	Added to Rolls: Number	Added to Rolls: Annual Allowance	Removed from Rolls: Number	Removed from Rolls: Annual Allowances	Rolls-End of Year: Number	Rolls-End of Year: Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
2004	6,822	$ 152,664,871	2,745	$ 38,223,588	94,880	$ 1,592,533,229	7.74%	$ 16,785
2005	8,179	179,497,068	2,863	41,696,122	100,196	1,730,334,175	8.65%	17,269
2006	6,822	164,369,688	3,247	34,799,179	103,831	1,859,904,684	7.49%	17.913
2007	5,967	177,884,598	1,443	17,852,392	108,355	2,019,936,890	8.60%	18,642
2008	7,310	205,072,079	3,243	48,851,264	112,422	2,176,157,700	7.73%	19,357
2009	6,700	218,347,411	3,115	56,523,577	116,007	2,337,981,534	7.44%	20,154
2010	6,908	147,419,991	2,668	50,510,952	120,247	2,434,890,574	4.14%	20,249
2011	8,639	226,843,465	1,715	55,062,716	127,171	2,606,671,323	7.05%	20,497
2012	7,936	264,562,994	2,614	58,769,603	132,493	2,812,464,714	7.89%	21,227
2013	7,874	238,239,133	2,442	62,081,371	137,925	2,988,622,476	6.26%	21,668

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

LIABILITIES / SOLVENCY TEST
MUNICIPAL)

Ratio of Assets to Actuarial Liabilities						
Active Member Contributions	Retirees Term Vested and Inactives	Active Members Employer Fin. Portion	Funded Ratio (Assets/Liab. Coverage)	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as % of Covered Payroll
100.00%	100.00%	81.33%	92.18%	2,841,047,495	8,069,480,852	35%
100.00%	100.00%	71.18%	88.21%	4,613,949,372	8,603,760,761	54%
100.00%	100.00%	60.67%	82.78%	7,448,467,323	9,287,575,596	80%
100.00%	100.00%	50.93%	80.36%	9,257,418,404	9,971,012,066	93%
100.00%	100.00%	46.92%	78.62%	10,739,762,798	10,542,806,018	102%
100.00%	100.00%	11.56%	65.02%	18,444,602,713	10,714,167,517	172%
100.00%	100.00%	6.73%	64.14%	19,396,735,421	10,657,943,561	182%
100.00%	100.00%	2.68%	64.70%	19,739,886,819	10,478,799,565	188%
100.00%	96.39%	0.00%	64.37%	20,620,744,692	10,336,536,835	199%
100.00%	95.92%	0.00%	65.52%	20,709,122,025	10,477,544,241	198%

MARYLAND STATE RETIREMENT
ACCOUNTING STATEMENT
AS OF
(STATE AND

	Teacher's Combined System	Employee's Combined System
1. Actuarial Accrued Liability		
a. Employee Contributions	$2,881,445,431	$ 1,774,121,814
b. Retirees, Term Vesteds & Inactives	20,904,618,595	12,507,971,945
c. Active Members	11,744,376,750	6,764,638,874
2. Total Actuarial Accrued Liability (1(a)+1(b)+1(c))	35,530,440,776	21,046,732,633
3. Actuarial Value of Assets	23,845,618,271	13,326,585,863
4. Unfunded Actuarial Accrued Liability (2-3)	$ 11,684,822,505	$ 7,720,146,770
5. Funded Ratio	67.11%	63.32%
6. Annual Payroll	$ 6,185,175,794	$ 4,030,260,921
7. UAAL as % of Payroll	189%	192%
8. Annual Required Contributions (ARC) STATE ONLY	20.59%	22.09%
9. Illustrated ARC contribution Dollars STATE ONLY for FY 2014	$ 1,317,464,402	$ 703,347,958
10. Equivalent Single Amortization Period in Years - STATE ONLY for FY2014@	25.000	25.000

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

AND PENSION SYSTEM
INFORMATION
JUNE 30, 2013
MUNICIPAL)

State Police	Judges	LEOPS	CORS	Total MSRPS*
$ 73,770,082	$ 27,212,316	$ 60,690,190	$ 1,434,384	$ 4,818,674,217
1,543,397,648	286,476,497	750,070,600	9,353,273	36,001,888,558
265,333,621	125,147,564	332,393,208	7,638,587	19,239,528,603
1,882,501,351	438,836,377	1,143,153,997	18,426,244	60,060,091,378
1,164,217,327	354,899,502	642,677,696	16,970,694	39,350,969,353
$ 718,284,024	$ 83,936,875	$ 500,476,301	$ 1,455,550	$ 20,709,122,025
61.84%	80.87%	56.22%	92.10%	65.52%
$ 79,848,029	$ 40,000,518	$ 137,612,972	$ 4,646,007	$10,477,544,241
900%	210%	364%	31%	198%
88.06%	42.74%	46.56%		21.96%
$73,984,139	$ 17,988,538	$ 41,511,458		$2,154,296,495
25.000	25.000	25.000		25.000

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

	Actuarial Valuation Performed		
	June 30, 2013 (for FY2015)	**June 30, 2012 (for FY2014)**	**% Change**
A. Demographic Information			
Active Number Count	104,028	103,694	0.3%
Retired Member and Beneficiary Count	66,390	63,699	4.2%
Vested Former Members Count	23,555	23,033	2.3%
Total Number Count	193,973	190,426	1.9%
Active Payroll	$ 6,185,175,794	$ 6,080,603,312	1.7%
Annual Benifits for Retired Members	$ 1,758,581,907	$ 1,657,508,543	6.1%
B. Actuarial Results			
Actuarial Accrued Liability	$ 35,530,440,776	$ 34,252,714,948	3.7%
Assets Value of Assets	23,845,618,271	22,523,977,712	5.9%
Unfunded Actuarial Accrued Liability (UAAL)	$ 11,684,822,505	$ 11,728,737,236	-0.4%
Funded Ratio	67.11%	65.76%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	5.64%	5.83%	
UAAL Amortization Rate	11.78%	14.54%	
Total Actuarial Employer Contribution Rate	17.42%	20.37%	
D. Corridor Contribution Rates (State Portion Only)			
Prior Year Corridor Rate	14.71%	13.29%	
28% for FY2015 (20% for FY2014) of Difference between Preliminary Funding Rate and Prior year Corridor Rate	0.76%	1.42%	
Employer Corridor Contribution Rate	15.47%	14.71%	
Estimated Employer Rate after Reinvestment of Savings	18.64%	17.94%	

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

(STATE AND MUNICIPAL)

Summary of Principal Plan Results

	Actuarial Valuation Performed		
	June 30, 2013 (for FY2015)	**June 30, 2012 (for FY2014)**	**% Change**
A. Demographic Information			
Active Number Count	84,677	85,174	-0.6%
Retired Members and Beneficiary Count	67,193	64,636	4.0%
Vested Former Member Count	27,651	27,875	-0.8%
Total Number Count	179,521	177,685	1.0%
Active Payroll	$ 4,030,260,921	$ 3,998,474,876	0.8%
Annual Benefits for Retired Members	$ 1,043,095,661	$ 978,515,407	6.6%
B. Actuarial Results			
Actuarial Accrued Liability	$ 21,046,732,633	$ 20,283,028,033	3.8%
Actuarial Value of Assets	13,326,585,863	12,667,591,862	5.2%
Unfunded Actuarial Accrued Liability (UAAL)	$ 7,720,146,770	$ 7,615,436,171	1.4%
Funding Ratio	63.32%	62.45%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	4.77%	4.90%	
UAAL Amortization Rate	14.55%	16.20%	
Total Actuarial Employer Contribution Rate	19.32%	21.10%	
D. Corridor Contribution Rates (State Portion Only)			
Prior Year Corridor Rate	14.05%	12.29%	
28% for FY2015 (20% for FY2014) of Difference between Preliminary Funding Rate and Prior year Corridor Rate	1.48%	1.76%	
Employer Corridor Contribution Rate	15.53%	14.05%	
Estimated Employer Rate after Reinvestment of Savings	18.30%	16.84%	

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

Summary of Principal Plan Results

	June 30, 2013 (for FY2015)	June 30, 2012 (for FY2014)	% Change
A. Demographic Information			
Active Member Count	1,320	1,332	-0.9%
Retired Member and Beneficiaries Count	2,428	2,387	1.7%
Vested Former Member Count	84	85	1.2%
Total Number Count	3,832	3,804	0.7%
Active Payroll	$ 79,848,029	$ 77,689,914	2.8%
Annual Benefits for Retired Members	$ 109,850,900	$ 105,974,605	3.7%
B. Actuarial Results			
Actuarial Accrued Liability	$ 1,882,501,351	$1,826,545,900	3.1%
Actuarial Value of Assets	1,164,217,327	1,134,510,589	2.6%
Unfunded Actuarial Accrued Liability (UAAL)	$ 718,284,024	$ 692,035,311	3.8%
Funding Ratio	61.84%	62.11%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	25.28%	25.40%	
UAAL Amortization Rate	57.78%	41.31%	
Total Actuarial Employer Contribution Rate	83.06%	66.71%	
Estimated Employer Rate after Reinvesment of Savings	88.06%	71.85%	

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

Summary of Principal Plan Results

	June 30, 2013 (for FY2015)	June 30, 2012 (for FY2014)	% Change
A. Demographic Information			
Active Number Count	288	294	-2.0%
Retired Members and Beneficiary Count	378	365	3.6%
Vested Former Members Count	10	10	0.0%
Total Number Count	676	669	1.0%
Active Payroll	$ 40,000,518	$ 39,955,368	0.1%
Annual Benifits for Retired Members	$ 26,520,948	$ 25,150,702	5.4%
B. Actuarial Results			
Actuarial Accrued Liability	$ 438,836,377	$ 421,286,047	4.2%
Actuarial Value of Assets	354,899,502	330,153,704	7.5%
Unfunded Actuarial Accrued Liability (UAAL)	$ 83,936,875	$ 91,132,343	-7.9%
Funding Ratio	80.87%	78.37%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	29.93%	29.91%	
UAAL Amortization Rate	12.81%	21.01%	
Total Actuarial Employer Contribution Rate	42.74%	50.92%	

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

Summary of Principal Plan Results

	June 30, 2013 (for FY2015)	June 30, 2012 (for FY2014)	% Change
A. Demographic Information			
Active Number Count	2,407	2,410	-0.1%
Retired Members and Beneficiary Count	1,518	1,396	8.7%
Vested Former Member Count	251	227	10.6%
Total Number Count	4,176	4,033	3.5%
Active Payroll	$ 137,612,972	$ 135,185,336	1.8%
Annual Benefits for Retired Members	$ 49,982,510	$ 44,945,152	11.2%
B. Actuarial Results			
Actuarial Accrued Liability	$ 1,143,1153,997	$1,070,087,421	6.8%
Actuarial Value of Assets	642,677,301	580,826,355	10.6%
Unfunded Actuarial Accrued Liability (UAAL)	$ 500,476,301	$ 489,261,066	2.3%
Funding Ratio	56.22%	54.28%	
C. Contribution Rates (State Portion Only)			
Employer Normal Cost Rate	15.25%	15.39%	
UAAL Amortization Rate	26.12%	37.08%	
Total Actuarial Employer Contribution Rate	41.37%	52.47%	
Estimated Employer Rate after Reinvestment of Savings	46.56%	57.72%	

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

Summary of Principal Plan Results

	June 30, 2013 (for FY2015)	June 30, 2012 (for FY2014)	% Change
A. Demographic Information			
Active Member Count	90	90	0.0%
Retired Member and Beneficiary Count	18	10	80.0%
Vested Former Members Count	1	0	
Total Number Count	109	100	9.0%
Active Payroll	$ 4,646,007	$ 4,628,029	0.4%
Annual Benefits for Retired Members	$ 590,551	$ 370,305	59.5%
B. Actuarial Results			
Actuarial Accrued Liability	$ 18,426,244	$ 15,483,123	19.0%
Actuarial Value of Assets	16,970,694	$ 11,340,558	49.6%
Unfunded Actuarial Accrued Liability (UAAL)	$ 1,455,550	$ 4,142,565	-64.9%
Funding Ratio	92.10%	73.24%	

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN

Teachers' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	7,197	$ 502,487,678	$ 69,819	3.05 %
2005	6,255	464,693,323	74,291	6.41
2006	5,449	413,849,937	75,950	2.23
2007	4,788	383,619,438	80,121	5.49
2008	4,125	352,954,397	85,565	6.79
2009	3,554	306,096,545	86,127	0.66
2010	3,111	269,775,400	86,717	0.68
2011	2,589	225,118,122	86,952	0.27
2012	2,040	178,541,246	87,520	-0.65
2013	1,630	145,207,003	89,084	1.79

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	88,765	$ 4,113,119,415	$ 46,337	4.08 %
2005	91,535	4,590,698,122	50,152	8.23
2006	94,869	4,855,335,579	51,179	2.04
2007	98,789	5,326,145,893	53,914	5.34
2008	101,836	5,764,636,027	56,607	4.99
2009	102,553	5,888,637,495	57,420	1.44
2010	103,162	5,984,872,410	58,014	1.03
2011	102,939	5,971,858,330	58,014	0.00
2012	101,654	5,902,062,066	58,060	0.08
2013	102,398	6,039,968,791	58,985	1.59

Employees' Retirement
(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	10,489	$ 438,455,277	$ 41,801	2.65 %
2005	9,869	423,715,070	42,934	2.71
2006	10,121	467,808,791	46,222	7.66
2007	9,980	472,525,475	47,347	2.44
2008	9,740	472,800,066	48,542	2.52
2009	9,962	483,871,203	48,572	0.06
2010	9,665	463,375,639	47,944	-1.29
2011	9,189	432,469,190	47,064	-1.84
2012	9,113	421,320,077	46,233	-1.77
2013	8,976	417,020,134	46,459	0.49

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Employees' Pension
(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	75,955	$ 2,964,093,317	$ 39,024	2.68 %
2005	76,787	3,187,380,273	41,509	6.37
2006	76,979	3,325,316,541	43,198	4.07
2007	78,719	3,543,695,246	45,017	4.21
2008	79,462	3,692,212,569	46,465	3.22
2009	79,418	3,765,664,905	47,416	2.05
2010	77,660	3,674,098,155	47,310	-0.22
2011	76,264	3,595,340,448	47,143	-0.35
2012	76,061	3,577,154,799	47,030	-0.24
2013	75,701	3,613,240,787	47,730	1.49

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	283	$ 33,149,832	$ 117,137	1.36 %
2005	282	33,897,984	120,206	2.62
2006	296	35,939,104	121,416	1.01
2007	297	37,638,491	126,729	4.38
2008	286	37,943,327	132,669	4.69
2009	297	40,266,330	135,577	2.19
2010	294	39,960,883	135,921	0.25
2011	286	38,810,261	135,700	-0.16
2012	294	39,955,368	135,903	0.15
2013	288	40,000,518	138,891	2.20

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	1,445	$ 77,531,613	$ 53,655	2.35 %
2005	1,439	77,610,367	53,934	0.52
2006	1,441	80,648,855	55,967	3.77
2007	1,416	83,190,937	58,751	4.97
2008	1,426	86,464,247	60,634	3.21
2009	1,408	85,585,708	60,785	0.25
2010	1,354	81,705,369	59,946	0.71
2011	1,295	75,551,283	58,341	-3.32
2012	1,332	77,689,914	58,326	-0.03
2013	1,320	79,848,029	60,491	3.71

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Law Enforcement Officers' Pension

(STATE AND MUNICIPAL)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2004	1,675	$ 78,628,672	$ 46,942	0.07 %
2005	1,826	88,925,957	48,700	3.75
2006	2,063	106,668,684	51,706	6.17
2007	2,217	122,015,164	55,036	6.44
2008	2,327	133,445,391	57,347	4.20
2009	2,445	140,071,292	57,289	-0.10
2010	2,474	140,199,243	56,669	-1.08
2011	2,411	135,176,780	56,067	-1.06
2012	2,410	135,185,336	56,094	0.05
2013	2,407	137,612,972	57,172	1.92

Correctional Officers' Retirement System

(MUNICIPAL)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
2009	68	$ 4,047,633	$ 59,524	NA
2010	66	3,956,462	59,946	0.71 %
2011	86	4,475,151	52,037	-13.19
2012	90	4,628,029	51,423	-1.18
2013	90	4,646,007	51,622	0.39

SRPS

Statistical Section

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

The schedules beginning on page 97 show financial trend information to assist users in understanding and assessing how the MSRPS's financial position has changed over the past 10 years. The financial trend schedules presented are:

- Changes in Net Assets
- Benefits Expense by Type

The schedules beginning on page 98 show demographic and economic information and operating information. The demographic and economic information is intended to assist users in understanding the environment in which MSRPS operates. The operating information is intended to provide contextual information about MSRPS's operations to assist readers in using financial statement information.
The demographic and economic information and the operating information presented include:

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

TEN-YEAR HISTORY OF CHANGES IN NET ASSETS

for the Years Ended June 30,
(Expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employer contributions	$ 632,052	$ 670,554	$ 720,876	$ 833,782	$ 1,047,963	$ 1,109,563	$1,308,921	$1,512,472	$1,595,761	$1,643,101
Members contributions	204,158	208,997	215,077	319,274	420,461	532,100	535,581	528.028	703,256	710,856
Net Investment income	4,202,632	2,766,389	3,225,649	5,924,070	(2,139,662)	(7,355,906)	4,016,359	6,273,337	104,084	3,845,795
Total Additions	$5,038,842	3,645,940	4,161,602	7,077,126	(671,238)	(5,714,243)	5,860,861	8,313,837	2,403,100	6,199,752
Deductions										
Benefit payments	1,570,622	1,697,397	1,829,468	1,965,872	2,120,463	2,279,170	2,445,540	2,580,392	2,755,106	2,950,700
Refunds	11,942	19,162	16,455	16,021	16,223	22,325	33,531	33,369	33,819	38,281
Administrative expenses	17,376	22,386	18,579	21,271	23,147	27,499	28,627	30,961	28,201	26,280
Total Deductions	1,599,940	1,738,945	1,864,502	2,003,164	2,159,833	2,328,994	2,507,698	2,644,722	2,817,126	3,015,261
Changes in net	$3,438,902	$1,906,995	$2,297,100	$5,073,962	$(2,831,071)	$(8,043,237)	$ 3,353,162	$5,669,115	$ (414,026)	$ 3,184,491

SCHEDULE OF BENEFIT EXPENSE BY TYPE

(Expressed In Thousands)

Fiscal Year	Age & Service Benefits: Retirees	Age & Service Benefits: Survivors	Death In Service Pre-Retirement Benefits	Disability Benefits: Retirees: Accidental	Disability Benefits: Retirees: Ordinary	Disability Benefits: Survivors	Death After Retirement Post-Retirement Benefits	Total
2004	$ 1,275,254	$ 82,862	$ 8,515	$ 39,777	$ 131,115	$ 19,798	$ 13,301	$ 1,570,622
2005	1,377,977	88,895	8,369	43,933	142,872	21,318	14,033	1,697,397
2006	1,479,107	101,395	8,655	48,351	152,900	24,036	15,124	1,829,468
2007	1,597,722	102,972	10,133	52,505	166,561	24,695	11,284	1,965,872
2008	1,714,059	118,215	8,908	59,908	176,802	28,052	14,519	2,120,463
2009	1,907,483	94,654	18,133	95,933	148,098	14,845	–	2,279,146
2010	2,045,795	100,953	18,857	102,032	161,836	16,068	–	2,445,540
2011	2,164,368	104,884	18,758	105,493	170,267	16,623	_	2,580,392
2012	2,318,614	109,674	19,232	109,996	179,914	17,677	_	2,755,106
2013	2,484,792	118,044	20,027	116,636	192,440	18,761	_	2,950,700

SCHEDULE OF REFUND EXPENSE BY TYPE

(Expressed in thousands)

Fiscal Year	Separation	Death	Misc.	Total
2004	11,942	N/A	N/A	11,942
2005	16,897	1,749	516	19,162
2006	13,338	2,688	429	16,455
2007	13,270	2,546	205	16,021
2008	13,526	2,507	190	16,223
2009	18,712	3,472	140	22,324
2010	29,320	4,029	182	33,531
2011	29,041	4,108	220	33,369
2012	29,521	4,142	156	33,819
2013	33,348	4,834	99	38,281

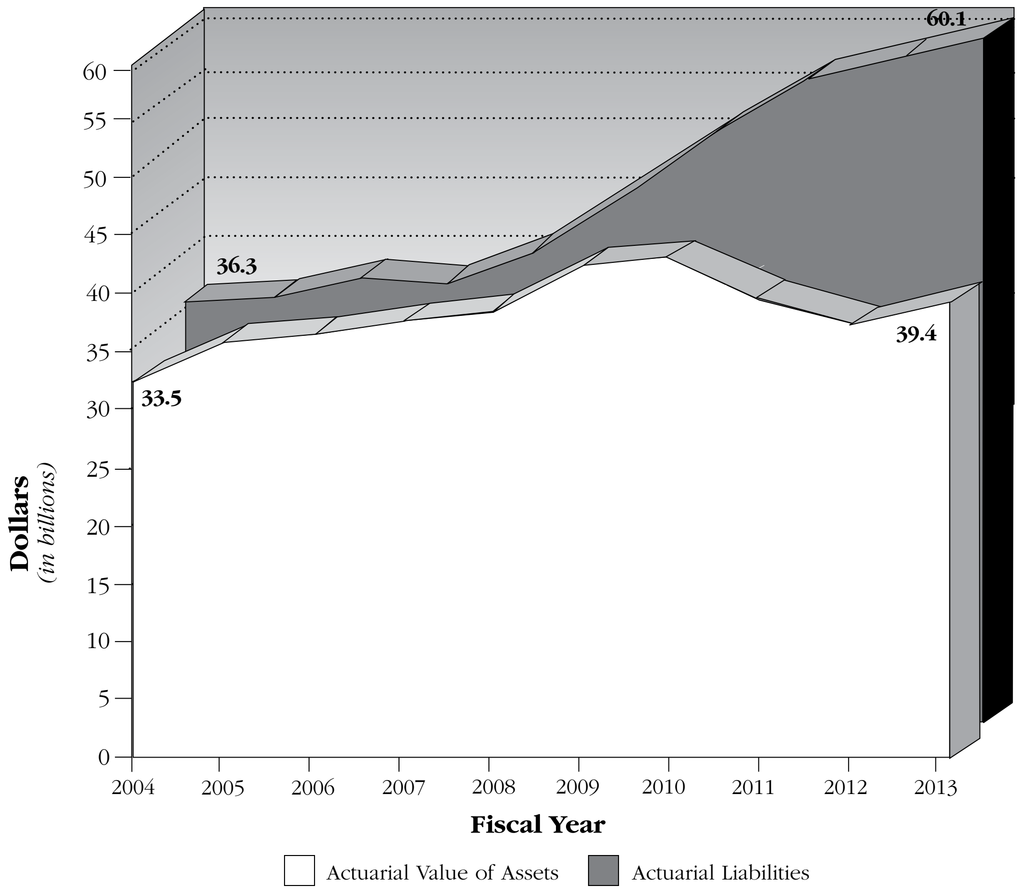
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

Average Benefit Payments – *Last Ten Years*

Years Credited Service

	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 7/1/2003 to 6/30/2004							
Average monthly benefit	$ 295	$ 452	$ 767	$ 1,066	$ 1,616	$ 2,520	$ 2,433
Monthly final average salary	$ 2,416	$ 2,634	$ 3,287	$ 3,640	$ 4,000	$ 4,949	$ 4,585
Number of retired members	273	669	669	795	1,009	1,530	1,172
Period 7/1/2004 to 6/30/2005							
Average monthly benefit	$ 349	$ 509	$ 742	$ 1,105	$ 1,591	$ 2,510	$ 2,361
Monthly final average salary	$ 2,461	$ 2,818	$ 3,392	$ 3,882	$ 4,136	$ 5,071	$ 4,615
Number of retired members	254	710	689	878	986	1,552	1,368
Period 7/1/2005 to 6/30/2006							
Average monthly benefit	$ 303	$ 525	$ 819	$ 1,360	$ 1,555	$ 2,426	$ 2,439
Monthly final average salary	$ 2,409	$ 2,852	$ 3,425	$ 4,031	$ 4,183	$ 5,147	$ 4,782
Number of retired members	261	713	702	850	872	1,454	1,319
Period 7/1/2006 to 6/30/2007							
Average monthly benefit	$ 457	$ 637	$ 868	$ 1,253	$ 1,696	$ 2,499	$ 2,256
Monthly final average salary	$ 3,202	$ 3,425	$ 3,733	$ 4,249	$ 4,524	$ 5,435	$ 5,052
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2007 to 6/30/2008							
Average monthly benefit	$ 419	$ 603	$ 993	$ 1,367	$ 1,732	$ 2,594	$ 2,727
Monthly final average salary	$ 2,811	$ 3,172	$ 3,825	$ 4,510	$ 4,617	$ 5,478	$ 5,224
Number of retired members	275	750	701	983	937	1,256	1,383
Period 7/1/2008 to 6/30/2009							
Average monthly benefit	$ 534	$ 577	$ 868	$ 1,232	$ 1,657	$ 1,973	$ 2,925
Monthly final average salary	$ 2,604	$ 3,273	$ 3,638	$ 4,222	$ 4,781	$ 4,924	$ 5,679
Number of retired members	191	751	625	757	872	678	2,171
Period 7/1/2009 to 6/30/2010							
Average monthly benefit	$ 505	$ 542	$ 838	$ 1,246	$ 1,670	$ 1,971	$ 2,933
Monthly final average salary	$ 2,902	$ 3,425	$ 3,636	$ 4,392	$ 4,814	$ 5,097	$ 5,811
Number of retired members	271	834	662	690	873	698	2,266
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	$ 435	$ 541	$ 851	$ 1,211	$ 1,800	$ 2,161	$ 3,100
Monthly final average salary	$ 2,884	$ 3,373	$ 3,734	$ 4,309	$ 4,984	$ 5,395	$ 5,970
Number of retired members	306	951	901	950	1,164	900	2,856
Period 7/1/2011 to 6/30/2012							
Average monthly benefit	$ 351	$ 437	$ 806	$ 1,296	$ 1,745	$ 2,175	$ 3,358
Monthly final average salary	$ 2,878	$ 3,483	$ 3,788	$ 4,645	$ 5,128	$ 5,520	$ 6,310
Number of retired members	254	931	844	817	989	837	2,662
Period 7/1/2012 to 6/30/2013							
Average monthly benefit	$ 435	$ 473	$ 802	$ 1,317	$ 1,712	$ 2,231	$ 3,297
Monthly final average salary	$ 2,810	$ 3,577	$ 3,907	$ 4,686	$ 5,028	$ 5,548	$ 6,217
Number of retired members	234	972	860	910	978	917	2,389

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF EMPLOYER CONTRIBUTION RATES BY PLAN

	State						Participating Governmental Units (PGU)				
Fiscal Year	Combined State Rate	Teachers' Combined Rate	Employees' Combined Rate	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Combined PGU Rate	Law Enforcement Officers' Pension	Employees' Retirement	Employees' Pension	Correctional Officers' Retirement
2004	8.06%	9.35%	4.73%	43.74%	7.58%	35.13%	2.87%	30.21%	7.59%	2.59%	– %
2005	7.97	9.35	4.73	36.72	–	37.73	5.28	32.10	9.87	4.87	–
2006	8.46	9.35	5.76	41.12	8.22	38.47	5.36	32.67	9.80	4.80	–
2007	9.18	9.71	6.83	42.43	13.83	40.60	N/A	33.18	10.68	5.68	–
2008	11.10	11.60	8.86	44.12	15.44	41.74	N/A	36.80	10.27	5.27	–
2009	11.14	11.70	8.73	43.61	20.53	36.99	N/A	30.53	8.87	3.87	-
2010	12.62	13.15	9.93	49.89	30.79	38.63	N/A	30.03	9.05	4.05	8.41
2011	14.33	14.34	11.69	59.07	57.03	47.67	N/A	32.74	12.30	7.30	9.69
* 2012	15.67	15.45	13.40	60.37	61.01	49.26	N/A	33.09	12.41	7.41	8.87
* 2013	13.85	13.29	12.29	61.18	61.21	46.81	N/A	28.71	10.46	5.46	7.96

*Rates for Municipal Systems only include basic employee cost rate.
Does not include reduction of $120 Million in contributions for State Systems due to 2011 General Assembly reforms.

SCHEDULE OF RETIRED MEMBERS BY TYPE
as of June 30, 2013

Amount of Monthly Benefit	Number of Retirees	Type of Retirement NR(4)	ER(3)	SP	SPD	ADR	ODR	SPDR
1 - 300	17,036	14,301	1,117	873	19	12	463	251
301 - 600	15,508	10,198	2,480	1,022	57	28	1,318	405
601 - 900	13,555	7,990	2,312	956	107	70	1,818	302
901 - 1,200	12,284	7,475	1,977	832	92	138	1,546	224
1,201 - 1,500	11,708	7,429	1,595	749	87	289	1,392	167
1,501 - 1,800	10,444	6,901	1,295	558	68	367	1,153	102
1,801 - 2,100	9,118	6,116	1,170	428	65	403	880	56
2,101 - 2,400	8,565	6,002	979	345	76	390	718	55
2,401 - 2,700	7,547	5,460	801	285	69	378	527	27
2,701 - 3,000	6,485	4,877	622	206	61	307	396	16
Over 3000	25,675	21,546	1,200	720	154	1,188	824	43
	137,925	98,295	15,548	6,974	855	3,570	11,035	1,648

Type of Retirement:

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

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
MAX(3)	Opt. 1(1)	Opt. 2	Opt. 3(2)	Opt. 4(1)	Opt. 5	Opt. 6	Opt. AO
8,567	3,750	1,881	903	880	594	449	12
6,748	2,906	1,810	1,528	1,201	535	767	13
5,505	2,180	1,589	1,541	1,413	443	877	7
4,725	1,722	1,567	1,495	1,449	428	893	5
4,137	1,575	1,772	1,433	1,364	576	846	5
3,452	1,458	1,625	1,306	1,318	488	791	6
3,076	1,222	1,411	1,136	1,155	404	709	5
2,879	1,164	1,329	1,083	1,087	337	682	4
2,723	922	1,095	933	1,038	275	555	6
2,434	742	945	762	886	246	468	2
9,111	2,634	3,451	3,596	4,391	684	1,775	33
53,357	20,275	18,475	15,716	16,182	5,010	8,812	98

Option Selected:

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

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

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

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

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

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

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

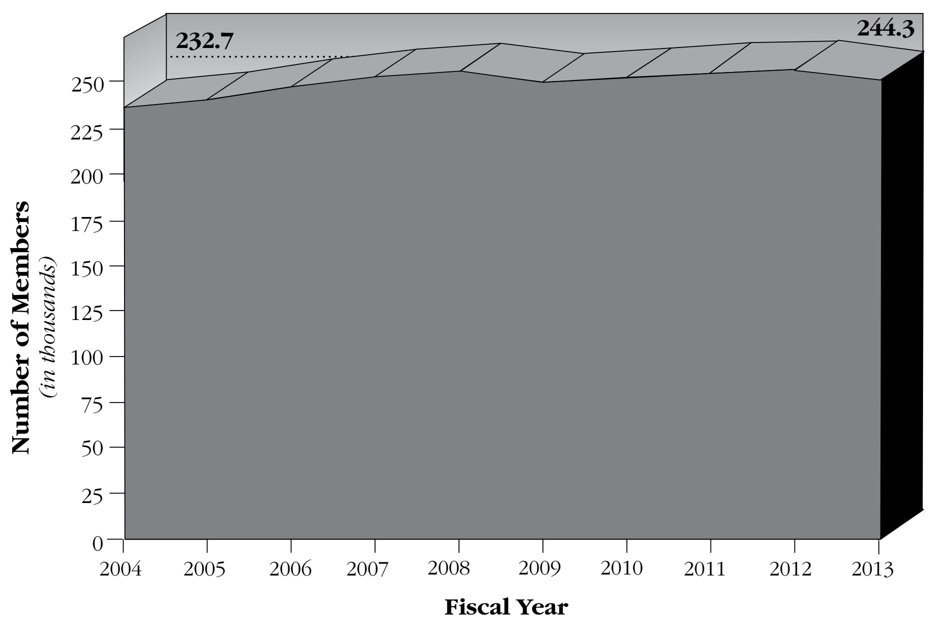
Opt. 7 – Special option calculation performed by actuary.

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

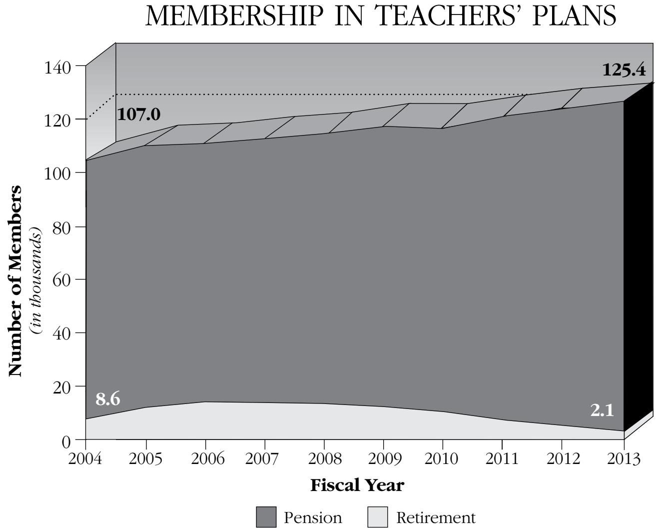
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Correctional Officers' Retirement
2004	232,772	8,675	107,092	11,800	101,581	297	1,498	1,756	–
2005	235,714	7,606	110,327	11,160	102,845	297	1,486	1,930	–
2006	240,583	6,678	114,693	11,398	103,784	310	1,499	2,178	–
2007	248,289	5,963	120,333	11,240	106,566	310	1,470	2,344	–
2008	251,050	5,217	123,562	10,906	107,021	294	1,487	2,501	–
2009	251,571	4,550	124,552	11,027	106,961	365	1,414	2,634	68
2010	249,561	4,012	125,278	10,664	105,138	300	1,431	2,672	66
2011	245,970	3,339	124,806	10,139	103,292	297	1,386	2,625	86
2012	244,224	2,663	124,064	10,011	103,038	304	1,417	2,637	90
2013	244,362	2,154	125,429	9,865	102,463	298	1,404	2,658	91

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

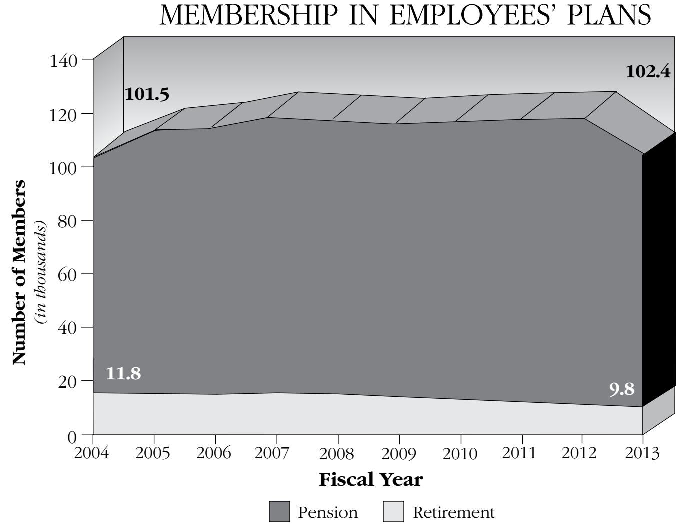
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

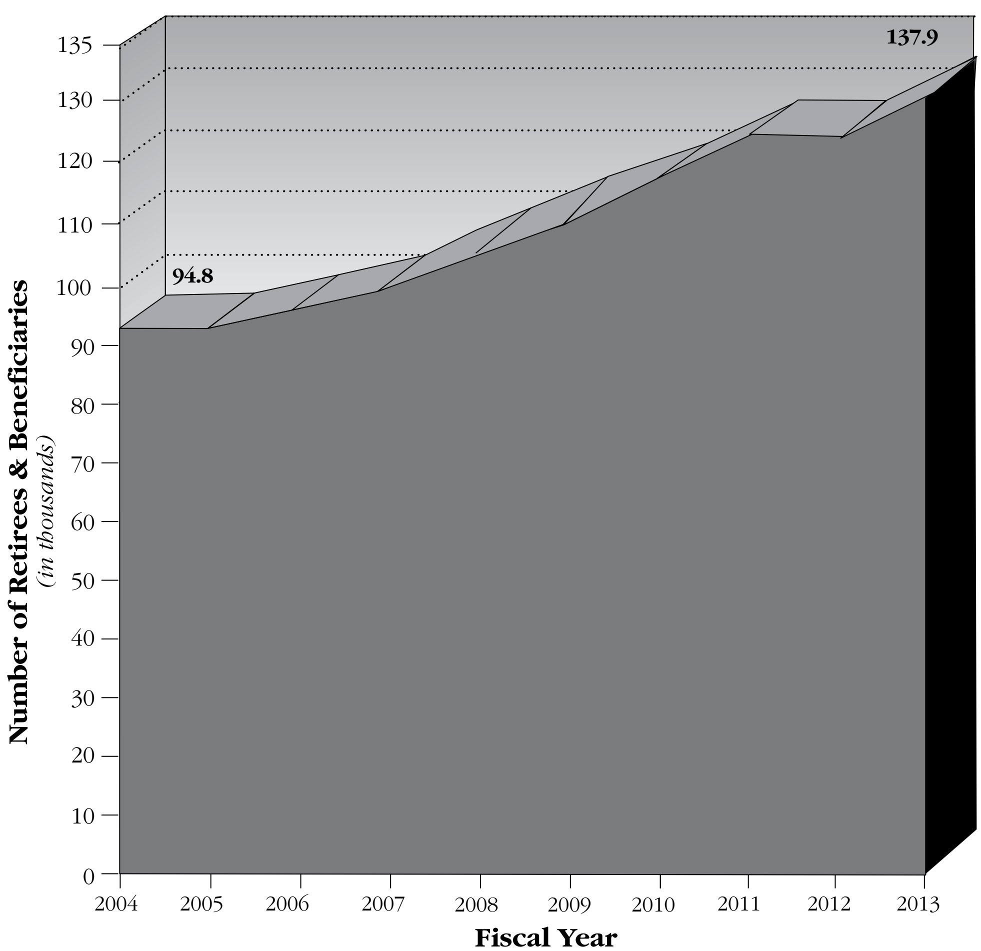


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Correctional Officers' Retirement System
2004	94,880	30,598	15,093	24,559	21,913	309	1,790	581	
2005	100,196	30,921	17,170	24,633	24,525	316	1,909	708	
2006	103.831	31,138	19,144	24,271	26,216	330	1,937	782	
2007	108,355	31,023	21,016	24,408	28,631	335	2,063	863	
2008	112,422	30,955	23,030	24,197	30,723	342	2,149	958	
2009	116,007	30,598	25,158	23,778	32,832	348	2,226	1,067	
2010	120,247	30,270	27,269	23,475	35,418	351	2,282	1,182	
2011	127,171	30,012	30,553	23,230	39,339	358	2,371	1,302	6
2012	132,493	29,705	33,994	22,796	41,840	365	2,387	1,396	10
2013	137,925	29,247	37,143	22,368	44,825	378	2,428	1,518	18

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

TOTAL SYSTEM RETIREES AND BENEFICIARIES



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

(Expressed in Thousands)

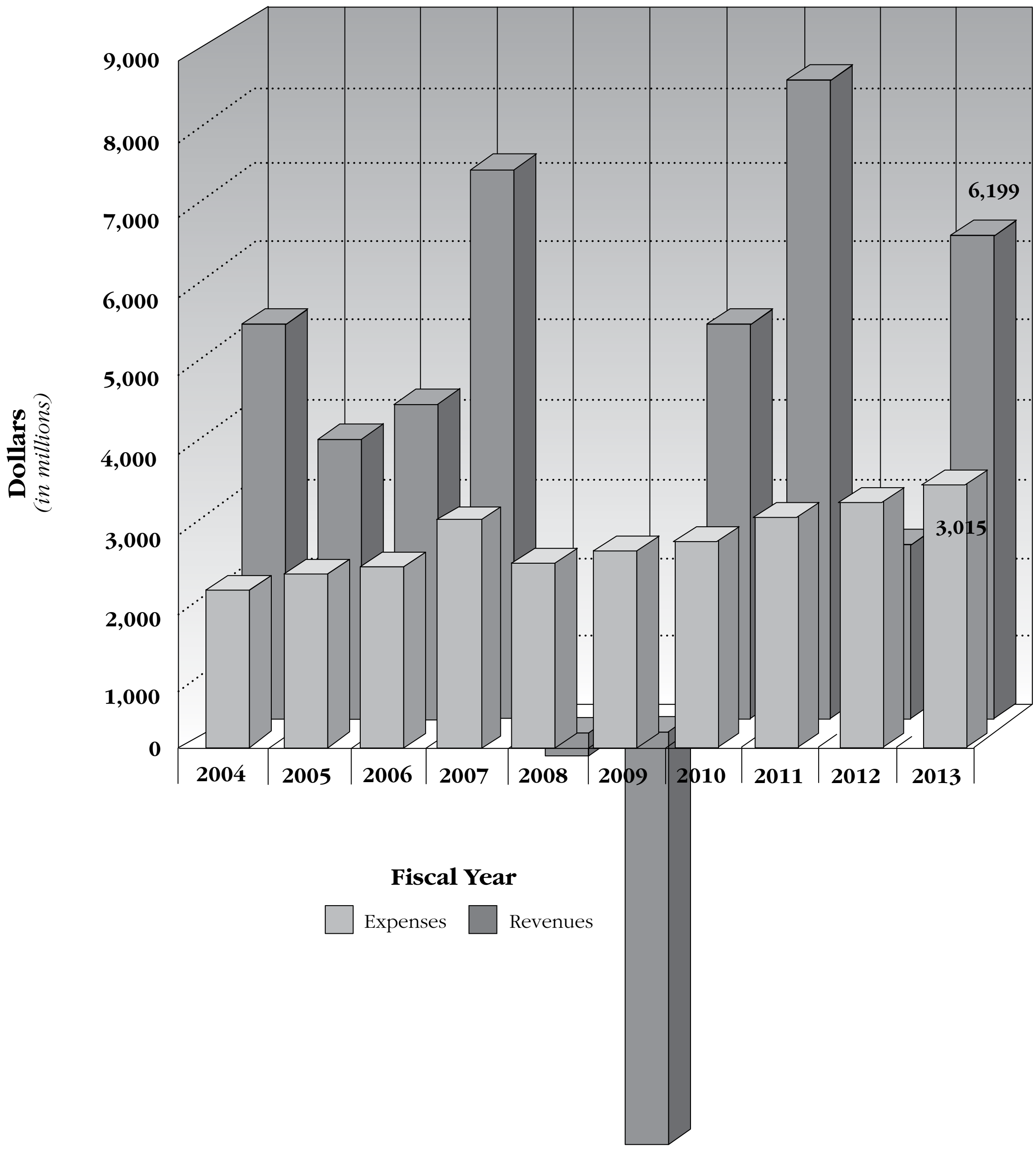
REVENUES

Fiscal Year	Members' Contributions	Employers' and Other Contributions	Annual Covered Payroll	Employers' and Other Contributions as a Percent of Covered Payroll	Net Investment Income	Total Revenues
2004	$ 204,158	$ 632,052	$ 8,069,481	7.83 %	$ 4,202,632	$ 5,038,842
2005	208,997	670,554	8,603,761	7.79	2,766,389	3,645,940
2006	215,077	720,876	9,089,951	7.93	3,225,649	4,161,602
2007	319,274	833,782	9,971,012	8.36	5,924,070	7,077,126
2008	420,461	1,047,962	10,542,806	9.94	(2,139,661)	(671,238)
2009	532,100	1,109,563	10,714,167	10.36	(7,355,906)	(5,714,243)
2010	535,581	1,308,921	10,657,944	12.28	4,016,359	5,860,861
2011	528,028	1,512,472	10,478,800	14.43	6,273,337	8,313,837
2012	703,256	1,595,761	10,336,536	15.44	104,084	2,403,100
2013	710,856	1,643,101	10,477,544	15.68	3,845,795	6,199,752

EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
2004	$ 1,570,622	$ 17,376	$ 11,942	$ 1,599,940
2005	1,697,397	22,386	19,162	1,738,945
2006	1,829,468	18,579	16,455	1,864,502
2007	1,965,872	21,271	16,021	2,003,164
2008	2,120,463	23,147	16,223	2,159,833
2009	2,279,170	27,499	22,325	2,328,994
2010	2,445,540	28,627	33,531	2,507,698
2011	2,580,392	30,961	33,369	2,644,722
2012	2,755,106	28,201	33,819	2,817,126
2013	2,950,700	26,280	38,281	3,015,261

TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2013			2004		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Participating Government						
State of Maryland	334,363	1	87%	288,334	1	88%
All other (Participating Municipalities)	47,924	2	13%	39,318	2	12%
Total System	382,287			327,652		

Governmental Units Participating in the Systems

as of June 30, 2013

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

Withdrawn Governmental Units

Allegany County Government (WMHPA)
Anne Arundel County Economic Opportunity Commission
Anne Arundel County Government
Baltimore Metropolitan Council
Bethesda Fire Department
Caroline County Roads Board
Cresptown Civic Improvement Association
Chevy Chase Fire Department
Elkton, Town of
Frederick County Government
Frederick County Government (WMHPA)
Garrett County Office for Children Youth and Family
Garrett County Commission
Garrett County Roads Board
Harford County Liquor Board
Lexington Market Authority
Maryland Environmental Service
Maryland National Capital Park & Planning Commission
Montgomery County Board of Education
Montgomery County Government
Montgomery County Public Library
St. Mary's Nursing Home
University of Maryland Medical System
Washington County Commission
Washington County License Commissioners
Washington County Roads Board
Washington County Sanitary District
Wicomico County Department of Recreation and Parks
Wicomico County Roads Board

SRPS

Plan Summary

Teachers' Retirement System

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	1,630	2,040
Active Non-vested	–	–
Vested Former Members	524	623
Retired Members	29,247	29,705
Active Members		
Number	1,630	2,040
Average Age	62.8	62.0
Average Years of Service	37.6	36.7
Average Annual Salary	$ 89,084	$ 87,520
Retirees & Beneficiaries		
Number	29,247	29,705
Average Age	75.4	74.9
Average Monthly Benefit	$ 2,913	$ 2,818

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

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

Member Contributions

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

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

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

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

Service Retirement Allowances

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

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

Early Retirement Allowances

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

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

Ordinary Disability Retirement Allowances

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

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

Accidental Disability Retirement Allowances

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

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

Death Benefits

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

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

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

Vested Retirement Allowances

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

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

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

Cost-of-Living Adjustments

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

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

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

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

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

Part 2: The COLAs are limited to 3%.

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

Optional Forms of Payment

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

TEACHERS' PENSION SYSTEM

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	81,123	80,778
Active Non-vested	21,275	20,876
Vested Former Members	23,031	22,410
Retired Members	37,143	33,994
Active Members		
Number	102,398	101,654
Average Age	45.0	44.9
Average Years of Service	11.7	11.6
Average Annual Salary	$ 58,985	$ 58,060
Retirees & Beneficiaries		
Number	37,143	33,994
Average Age	68.7	68.3
Average Monthly Benefit	$ 1,652	$ 1,601

THE TEACHERS' PENSION SYSTEM (TPS) was established on January 1, 1980 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the TPS is a condition of employment for all State and local teachers and certain board of education, public library and community college employees (unless those who are eligible elect to participate in an optional retirement program).

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

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

Member Contributions

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

Service Pension Allowances

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

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

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

ACPS Allowances — Service pension allowances equal 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998, plus 1.8% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued on and after July 1, 1998.

RCPB Allowances — Service pension allowances equal 1.5% of AFC for the five highest consecutive years as an employee for each year of creditable service on or after July 1, 2011.

Early Service Pension Allowances

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

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

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

RCPB Allowances — Early service pension allowances equal the amount payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the members reach age 65. The maximum reduction is 30%.

Ordinary Disability Pension Allowances

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

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

Accidental Disability Pension Allowances

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

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

Death Benefits

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

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

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

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

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

Vested Pension Allowances

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

ACPS Allowances — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation. If members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

RCPB Eligibility — Members are eligible for vested pension allowances after separation from service and upon reaching age 65, provided that at least 10 years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 60 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 65

RCPB Allowances — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation. If members do not withdraw their contributions, and die before attaining age 65, their accumulated contributions are returned to the designated beneficiary

Cost-of-Living Adjustments

Retirement allowances for ACPS members are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and, are compounded annually. Effective July 1, 1998, the adjustment is capped at a maximum 3% and is applied to all benefits which have been in payment for one year.

For ACPS and RCPB retirement allowances attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. For fiscal year 2013, the assumed rate of return is 7.75%, as approved by the Board of Trustees. The adjustment is capped at the lesser of 1% or the increase in CPI if, for fiscal year 2013, the market value return was less than the assumed rate of 7.75%.

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

Optional Forms of Payment

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

Employees' Retirement System

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	6,308	6,248
Active Non-vested	2,668	2,865
Vested Former Members	889	898
Retired Members	22,368	22,796
Active Members		
Number	8,976	9,113
Average Age	43.8	43.7
Average Years of Service	12.8	13.0
Average Annual Salary	$ 46,459	$ 46,233
Retirees & Beneficiaries		
Number	22,368	22,796
Average Age	73.1	72.9
Average Monthly Benefit	$ 1,750	$ 1,691

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

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

Member Contributions

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

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

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

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

Service Retirement Allowances

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

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

Early Retirement Allowances

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

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

Ordinary Disability Retirement Allowances

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

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

Accidental Disability Retirement Allowances

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

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

Death Benefits

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

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

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

Vested Retirement Allowances

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

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

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

Cost-of-Living Adjustments

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

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

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

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

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

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

Optional Forms of Payment

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

Miscellaneous Provisions for Members of the Maryland General Assembly

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

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

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

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

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

Miscellaneous Provisions for State Correctional Officers

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

Pension Changes (CORS Only)

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

Employees' Pension System

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	57,750	58,058
Active Non-vested	17,951	18,003
Vested Former Members	26,762	26,977
Retired Members	44,825	41,840
Active Members		
Number	75,701	76,061
Average Age	48.6	48.5
Average Years of Service	12.40	12.32
Average Annual Salary	$ 47,730	$ 47,030
Retirees & Beneficiaries		
Number	44,825	41,840
Average Age	68.3	68.0
Average Monthly Benefit	$ 1,066	$ 1,028

The Employees' Pension System (EPS)

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

Non-Contributory Pension System (NCPS)

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

Employees' Contributory Pension System (ECPS)

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

Alternate Contributory Pension Selection (ACPS)

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

Reformed Contributory Pension Benefit (RCPB)

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

Member Contributions

NCPS — Members were required to contribute 5% of earnable compensation in excess of the social security wage base.
ECPS — Members are required to contribute 2% of earnable compensation.
ACPS — Members were required to contribute 7% of earnable compensation.
RCPB — Members were required to contribute 7% of earnable compensation.

Service Pension Allowances

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

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

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

Allowances

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

ECPS - Full service pension allowance equals 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.4% of the AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998.

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

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

Early Service Pension Allowances

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

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

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

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

Ordinary Disability Pension Allowances

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

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

Accidental Disability Pension Allowances

Eligibility — **All EPS** members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.
Allowances — Accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC.

Death Benefits

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

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

If at the time of death, the members had:

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

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

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

Vested Pension Allowances

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

NCPS, ECPS, and ACPS Allowances — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation. Members who elect to withdraw their accumulated contributions, remain eligible to receive the employer-provided share of the vested benefit. If members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

RCPB Eligibility — Members are eligible for vested pension allowances after separation from service and upon reaching age 65, provided that at least 10 years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 60 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 65.

RCPB Allowances — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation. If members do not withdraw their contributions, and die before attaining age 65, their accumulated contributions are returned to the designated beneficiary.

Cost of Living Adjustments

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

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

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

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

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

For any EPS retirement allowance attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. For fiscal year 2013, the assumed rate of return is 7.75%, as approved by the Board of Trustees. The adjustment is capped at the lesser of 1% or the increase in CPI if, for fiscal 2013, the market value return was less than the assumed rate of 7.75%.

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

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.
Option 2: 100% joint and survivor annuity.
Option 3: 50% joint and survivor annuity.
Option 4: Payment guarantees a minimum return of the members' accumulated contributions.
Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

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

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

Workers' Compensation Benefits Reduction

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

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

Judges' Retirement System

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	276	294
Active Non-vested	12	–
Vested Former Members	10	10
Retired Members	378	365
Active Members		
Number	288	294
Average Age	58.3	58.1
Average Years of Service	9.6	9.4
Average Annual Salary	$ 138,891	$ 135,903
Retirees & Beneficiaries		
Number	378	365
Average Age	76.7	76.5
Average Monthly Benefit	$ 5,847	$ 5,742

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

Member Contributions

Beginning July 1, 2012, all members contribute 8% of annual earnable compensation during the first 16 years of service. After accruing 16 years of credit, no member contributions are required.

Service Retirement Allowances

Eligibility — JRS members who are members before July 1, 2012, are eligible for full service retirement allowances upon attaining age 60 or upon retirement by order of the Court of Appeals, with at least 16 years of eligibility service.

Individuals who become JRS members on or after July 1, 2012, are eligible for full service retirement allowances upon attaining age 60 and accruing at least five years of eligibility service, or upon retirement by order of the Court of Appeals, with at least 16 years of eligibility service.

All JRS members must retire at age 70.

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

Early Retirement Allowances

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

Disability Retirement Allowances

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

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

Death Benefits

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

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

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

Vested Retirement Allowances

Eligibility — JRS members who are members before July 1, 2012, are immediately vested. Members leaving the bench before attaining age 60 are eligible to receive their service retirement allowances commencing upon attaining age 60.

Individuals who become JRS members on or after July 1, 2012, are eligible for vested retirement allowances after separation from service and upon reaching age 60, provided that at least five years of eligibility service was accumulated prior to separation.members.

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

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

Optional Forms of Payment

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Pension Changes

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

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

State Police Retirement System

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	993	991
Active Non-vested	327	341
Vested Former Members	84	85
Retired Members	2,428	2,387
Active Members		
Number	1,320	1,332
Average Age	35.5	35.3
Average Years of Service	11.0	10.7
Average Annual Salary	$ 60,491	$ 58,326
Retirees & Beneficiaries		
Number	2,428	2,387
Average Age	61.4	60.8
Average Monthly Benefit	$ 3,770	$ 3,700

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

Member Contributions

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

Service Retirement Allowances

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

Allowances — For individuals who are members on or before June 30, 2011, a full service retirement allowance equals 2.55% of AFC for the five highest years as a member for each year of creditable service, up to a maximum 71.4% of AFC (28 years). Individuals who become members on or after July 1, 2011, will receive a full service retirement allowance equal to 2.55% of AFC for the five highest years as a member for each of the first 29 years of creditable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

Early Retirement Allowances

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

Ordinary Disability Retirement Allowances

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

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

Special Disability Retirement Allowances

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

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

Ordinary Death Benefits

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

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

Special Death Benefits

Members in Service

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

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

Survivor Benefit

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

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

Vested Retirement Allowances

Eligibility — Individuals who are SPRS members on or before June 30, 2011, are eligible for vested retirement allowances after separation from service and upon reaching age 50, provided that at least five years of eligibility service was accumulated prior to separation. Individuals who are SPRS members on or after July 1, 2011, are eligible for vested retirement allowances after separation from service and upon reaching age 50, provided that at least 10 years of eligibility service was accumulated prior to separation.

Allowances — Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation. SPRS members may elect to withdraw their accumulated contributions within two years of separation in lieu of receiving vested retirement allowances. If members do not withdraw their contributions, and die before attaining age 50, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances attributable to service earned on or before June 30, 2011, are adjusted each year based on the Consumer Price Index.

For retirement allowance attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. For fiscal year 2013, the assumed rate of return is 7.75%, as approved by the Board of Trustees. The adjustment is capped at the lesser of 1% or the increase in CPI if, for fiscal year 2013, the market value return was less than the assumed rate of 7.75%.

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

COLAs are effective July 1st of each year and are applied to all allowances payable for the year

Optional Forms of Payment

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

Deferred Retirement Option Program

SPRS members are eligible to participate in a Deferred Retirement Option Program (DROP). For SRPS members who enter DROP on or before June 30, 2011, they must have at least 22 years of creditable service, but less than 28 years, and be under age 60. For SRPS members who enter DROP on or after July 1, 2011, they must have at least 22 years of creditable service, but less than 29 years, and be under age 60. The maximum period of participation is 4 years.

For members who enter the DROP on or before June 30, 2011, the SPRS member is deemed retired and the retirement allowance is placed in an account earning 6% interest per year, compounded monthly. For members who enter the DROP on or after July 1, 2011, the SPRS member is deemed retired and the retirement allowance is placed in an account earning 4% interest per year, compounded annually. At the end of the DROP period, the lump sum held in the DROP account is paid to the SPRS retiree. The SPRS member must end employment and fully retire at the end of the DROP period.

Law Enforcement Officers' Pension System

A COMPOSITE PICTURE

	2013	2012
Total Membership		
Active Vested	1,870	1,849
Active Non-vested	537	561
Vested Former Members	251	227
Retired Members	1,518	1,396
Active Members		
Number	2,407	2,410
Average Age	40.8	40.6
Average Years of Service	10.7	10.8
Average Annual Salary	$ 57,172	$ 56,094
Retirees & Beneficiaries		
Number	1,518	1,396
Average Age	57.9	57.7
Average Monthly Benefit	$ 2,744	$ 2,683

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

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

Member Contributions

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

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

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

Service Retirement Allowances

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

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

For members subject to the pension system provisions who became members of LEOPS on or before June 30, 2011, full service pension allowances equal 2.0% of AFC for the three highest consecutive years as an employee, up to a maximum benefit of 60% of AFC (30 years of credit). For members subject to the pension system provisions who become members of LEOPS on or after July 1, 2011, full service pension allowances equal 2.0% of AFC for the five highest consecutive years as an employee, up to a maximum benefit of 60% of AFC (30 years of credit)

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

Early Retirement Allowances

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

Ordinary Disability Retirement Allowances

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

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

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

Accidental Disability Retirement Allowances

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

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

Ordinary Death Benefits

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

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

Special Death Benefits

Members in Service

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

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

Survivor Benefits

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

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

Vested Pension Allowances

Eligibility — Members who join LEOPS on or before June 30, 2011, are eligible for vested pension allowances after separation from service and upon attaining age 50, provided that they accumulated at least five years of eligibility service prior to separation. Members who join LEOPS on or after July 1, 2011, are eligible for vested pension allowances after separation from service and upon attaining age 50, provided that they accumulated at least 10 years of eligibility service prior to separation.

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

Cost-of-Living Adjustments

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

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

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

For all other LEOPS members, the annual COLA for retirement allowances attributable to service earned on or before June 30, 2011, is limited to 3% of the annual allowance. For retirement allowances attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. For fiscal year 2013, the assumed rate of return is 7.75%, as approved by the Board of Trustees. The adjustment is capped at the lesser of 1% or the increase in CPI if, for fiscal year 2013, the market value return was less than the assumed rate of 7.75%.

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

Optional Forms of Payment

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Workers' Compensation Benefits Reduction

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

Deferred Retirement Option Program

LEOPS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the LEOPS member must have at least 25 years of creditable service, but less than 30 years. The maximum period of participation is 5 years. For members who enter the DROP on or before June 30, 2011, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 6% interest per year, compounded monthly. For members who enter the DROP on or after July 1, 2011, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 4% interest per year, compounded annually. At the end of the DROP period, the lump sum held in the DROP account is paid to the LEOPS retiree. The LEOPS member must end employment and fully retire at the end of the DROP period..

SRPS