Robert Hagans, Kenneth Haines join board

Trustee Lochte reelected; Trustees Zirkin, Zollicoffer reappointed; Trustees Brown, Schaefer retire

The Board of Trustees of the Maryland State Retirement and Pension System in recent weeks welcomed new Trustees Robert R. Hagans, Jr., a gubernatorial appointee to the board, and Kenneth B. Haines, who won an elected board seat. Earlier in 2011, Trustee Teresa Lochte won reelection to a second board term while Trustees Harold Zirkin and Thurman W. Zollicoffer, Jr., were reappointed to new terms by the Governor. Trustees William D. Brown and Robert W. Schaefer retired from the board.

ROBERT R. HAGANS, JR.

Trustee Hagans was tapped for the board by Governor Martin O’Malley in November 2011. Since 2001, Mr. Hagans has served as chief financial officer...

Investing in your future

A message from Chief Investment Officer A. Melissa Moye

The Maryland State Retirement and Pension System is managed to produce long-term investment returns to fund retiree benefits for many decades to come. Despite the peaks and valleys of the financial markets in recent years, the gross return of the system over the last 25 years is 8.6%, a healthy result.

Today as I write the market is rebounding on confidence that the holidays will bring strong retail sales in the U.S. While our portfolio managers will take a view on retail sales for the season, the investment horizon of the overall retirement system is much longer term.

Each year, the board of trustees reviews the allocation of the total fund among the various asset classes (e.g., public equity, fixed income, credit/debt strategies, alternatives and cash) and makes any adjustments judged necessary for optimal fund performance. For example, over the last few years, the board has reduced the target allocation to public equity while increasing allocations to private equity and credit/debt strategies.

FOLLOWING A NATION-WIDE SEARCH, the board of trustees in September 2011 announced that A. Melissa Moye, Ph.D., had been selected as the system’s chief investment officer (CIO). Dr. Moye previously served as acting CIO.

For more on Dr. Moye, go to sra.maryland.gov and click on News.

See Trustees, page 6
See Investing, page 5
Financial report: Investment growth tops 20%

THE MARYLAND STATE RETIREMENT AND PENSION SYSTEM’S PORTFOLIO earned 20.04% on investments in fiscal year 2011, raising assets to $37.59 billion—an increase of $5.75 billion over the previous year when the portfolio earned 14.03%.

The investment results were detailed in the system’s Consolidated Annual Financial Report released in December 2011. The year also witnessed Governor Martin O’Malley’s introduc-

See Growth, page 3


<table>
<thead>
<tr>
<th>Expressed in thousands</th>
<th>Teachers' Retirement and Pension Systems</th>
<th>Employees' Retirement and Pension Systems</th>
<th>Judges' Retirement System</th>
<th>State Police Retirement System</th>
<th>Law Enforcement Officers' Retirement System</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>$1,228,307</td>
<td>$616,862</td>
<td>$31,796</td>
<td>$82,741</td>
<td>$43,016</td>
<td>$2,002,722</td>
</tr>
<tr>
<td>Investments, at Fair Value</td>
<td>24,568,009</td>
<td>13,891,864</td>
<td>309,163</td>
<td>1,177,023</td>
<td>573,184</td>
<td>40,519,243</td>
</tr>
<tr>
<td>Other Assets</td>
<td>496,442</td>
<td>345,828</td>
<td>6,519</td>
<td>25,804</td>
<td>13,179</td>
<td>887,772</td>
</tr>
<tr>
<td>Total Assets</td>
<td>26,292,758</td>
<td>14,854,554</td>
<td>347,478</td>
<td>1,285,588</td>
<td>629,379</td>
<td>43,409,737</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>3,527,812</td>
<td>1,993,403</td>
<td>44,517</td>
<td>169,040</td>
<td>82,213</td>
<td>5,816,985</td>
</tr>
<tr>
<td>Total Plan Net Assets</td>
<td>$22,764,946</td>
<td>$12,861,151</td>
<td>$302,961</td>
<td>$1,116,528</td>
<td>$547,166</td>
<td>$37,592,752</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Expressed in thousands</th>
<th>Teachers' Retirement and Pension Systems</th>
<th>Employees' Retirement and Pension Systems</th>
<th>Judges' Retirement System</th>
<th>State Police Retirement System</th>
<th>Law Enforcement Officers' Retirement System</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>$919,313</td>
<td>$467,320</td>
<td>$23,854</td>
<td>$44,915</td>
<td>$57,070</td>
<td>$1,512,472</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>316,971</td>
<td>197,300</td>
<td>1,813</td>
<td>6,339</td>
<td>5,605</td>
<td>528,028</td>
</tr>
<tr>
<td>Investment Income</td>
<td>3,829,451</td>
<td>2,140,796</td>
<td>48,631</td>
<td>168,187</td>
<td>86,272</td>
<td>6,273,337</td>
</tr>
<tr>
<td>Total Additions</td>
<td>5,065,735</td>
<td>2,805,416</td>
<td>74,298</td>
<td>219,441</td>
<td>148,947</td>
<td>8,313,837</td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payments</td>
<td>1,525,781</td>
<td>896,041</td>
<td>24,381</td>
<td>97,905</td>
<td>36,284</td>
<td>2,580,392</td>
</tr>
<tr>
<td>Refunds</td>
<td>16,476</td>
<td>16,138</td>
<td>-</td>
<td>380</td>
<td>375</td>
<td>33,369</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>16,536</td>
<td>13,776</td>
<td>46</td>
<td>215</td>
<td>388</td>
<td>30,961</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>1,558,793</td>
<td>925,955</td>
<td>24,427</td>
<td>98,500</td>
<td>37,047</td>
<td>2,644,722</td>
</tr>
<tr>
<td>Net System Transfers</td>
<td>1,494</td>
<td>(1,613)</td>
<td>-</td>
<td>(12)</td>
<td>131</td>
<td>-</td>
</tr>
<tr>
<td>Net Change in Plan Net Assets</td>
<td>3,508,436</td>
<td>1,877,846</td>
<td>49,871</td>
<td>120,929</td>
<td>112,031</td>
<td>5,669,115</td>
</tr>
<tr>
<td>Net Assets at Beginning of Fiscal Year</td>
<td>19,256,510</td>
<td>10,983,303</td>
<td>253,090</td>
<td>995,599</td>
<td>435,135</td>
<td>31,923,637</td>
</tr>
<tr>
<td>Net Assets at End of Fiscal Year</td>
<td>$22,764,946</td>
<td>$12,861,151</td>
<td>$302,961</td>
<td>$1,116,528</td>
<td>$547,166</td>
<td>$37,592,752</td>
</tr>
</tbody>
</table>
*Intersystem transfers have been eliminated in this financial statement.

Actuarial Funded Status for the Fiscal Year Ended June 30, 2011

<table>
<thead>
<tr>
<th>Expressed in thousands</th>
<th>Teachers' Retirement and Pension Systems</th>
<th>Employees' Retirement and Pension Systems</th>
<th>Judges' Retirement System</th>
<th>State Police Retirement System</th>
<th>Law Enforcement Officers' Retirement System</th>
<th>Municipal Correctional Officers' Retirement System</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Accrued Liability</td>
<td>32,985,145</td>
<td>19,722,264</td>
<td>433,240</td>
<td>1,759,676</td>
<td>1,002,708</td>
<td>14,511</td>
<td>55,917,543</td>
</tr>
<tr>
<td>Actuarial Value of Assets</td>
<td>21,868,875</td>
<td>12,387,810</td>
<td>293,801</td>
<td>1,090,383</td>
<td>526,807</td>
<td>9,980</td>
<td>36,177,656</td>
</tr>
<tr>
<td>Unfunded Actuarial Accrued Liability</td>
<td>11,116,270</td>
<td>7,334,453</td>
<td>139,439</td>
<td>669,293</td>
<td>475,900</td>
<td>4,531</td>
<td>19,739,887</td>
</tr>
<tr>
<td>Funded Ratio</td>
<td>66.3%</td>
<td>62.8%</td>
<td>67.8%</td>
<td>61.9%</td>
<td>52.5%</td>
<td>68.8%</td>
<td>64.7%</td>
</tr>
</tbody>
</table>
State Retirement Pick-up and your taxes

FOR ELIGIBLE RETIREES, Block 17 of the 1099-R Form contains the amount of your tax deferred contributions made under the State Retirement Pick-up Program. This figure is important for Maryland State income tax preparation.

The State Pick-up Program is concerned with the employee pension plan contributions made while working. It provides for the deferral of federal taxes when the contributions are made, but makes them taxable when received in the pension. Since this program only defers federal taxes at the time the contributions are made, state income taxes were deducted. The consequence in retirement is that the state income tax is deferred until the pick-up contributions are recovered.

While most members participated in the pick-up program, your participation was determined by whether your employer elected to participate and by whether your pension plan required you to make employee contributions.

FEDERAL TAXES

Since eligible members did not pay any federal taxes on their pick-up contributions during employment, taxes must be paid during retirement.

You do not need to make any special entries on your federal tax form – the retirement agency has included your pick-up contributions when computing the taxable amount of your pension for federal tax purposes.

MARYLAND STATE TAXES

You have already paid Maryland State taxes on the pick-up contributions listed on your 1099-R. To avoid paying taxes twice, you must subtract the pick-up amount from your federal adjusted gross income shown on page 1 of your Maryland tax return (Form 502) as follows:

Enter your pick-up amount on line r of Form 502SU. Enter the sum of all subtractions from Form 502SU on line 13 of Form 502. Enter code letter "r" in the code letter box of Form 502. Please attach the Form 502SU to the Form 502. This serves as a subtraction from your income which will reduce your taxable net income on line 20 (Form 502).

The subtraction is limited to the amount of pick-up contribution stated on the 1099-R or the taxable pension, whichever is less. The remainder of the pick-up amount is carried over to next year’s taxes. When the pick-up amount reaches zero, "EP used" will be printed in the pick-up block on your 1099-R. This usually occurs within a few years after the date of retirement.

ATTENTION 2011 RETIREES

For members who retired in 2011, the W-2 form you receive from your former employer will show 1) your annual wages earned prior to retirement and 2) any state pick-up contributions made in 2011. This amount serves as an addition to state income for 2011. Enter this figure on line 3 of your Maryland tax return (Form 502).

Growth, from page 2

The 2011 annual report, along with reports from previous years, can be reviewed in their entirety online at sra.maryland.gov.

Open enrollment slated for retired state of Maryland employees

STATE OF MARYLAND 2012-2013 OPEN ENROLLMENT IS RIGHT AROUND THE CORNER! Please watch the mail for your annual open enrollment packet which will be mailed to your home in early spring. If your contact information has changed within the past year, please contact the State of Maryland Employee Benefits Division as soon as possible at 410-767-4775 or toll-free at 1-800-30-STATE. For the latest benefit updates go to www.dbm.maryland.gov/benefits
Understanding your 1099-R tax form

 INTERNAL REVENUE SERVICE TAX FORM 1099-R will be distributed to all Maryland State Retirement and Pension System payees by the end of January 2012. The forms provide each payee with detailed information on his or her pension income for the previous year. Most payees receive only one 1099-R tax form each year. However, persons who retired in 2011 will receive a separate 1099-R tax form for any additional refunds they received, such as a refund of state pick-up contributions or a refund of voluntary annuity contributions.

How to Read Your 1099-R Tax Form

Please note that the IRS renumbered some of the blocks on the 1099-R form this year.

BLOCK 1.
(Gross Distribution)
This is the total amount of pension benefits paid to you by the Maryland State Retirement Agency during the 2011 calendar year.

BLOCK 2A.
(Taxable Amount)
This is the taxable amount of your pension. Depending on your retirement date and whether you contributed to your plan, you may not be taxed on the total amount of benefits paid to you. If this is the case, the amount shown in this block will differ from the amount in Block 1.

BLOCK 2B.
(Taxable Amount Not Determined)
This block applies only to disability retirees who retired prior to January 1, 1995. These individuals should consult their tax professional when preparing their tax returns.

BLOCK 4.
(Federal Income Tax Withheld)
This block shows any federal income tax deducted from your monthly retirement payments. To change the amount of federal income tax being withheld, complete a tax withholding request form (Form 766), available through the retirement agency.

BLOCK 5.
(Employee Contributions)
This is the amount of your contributions that were recovered, tax free, during 2011. This figure is the difference between the amounts in Blocks 1 and 2a. The dollar figure in this box does NOT represent the amount of any health insurance premiums withheld from your benefit payment.

BLOCK 7.
(Distribution Code(s))
IRS codes are explained on the back of the 1099-R form.

BLOCK 9B.
(Total Employee Contributions)
For retirees who received their first benefit payments in 2011, this block contains the value of any contributions made during employment that can be recovered tax-free. Only members who retired in 2011 and made pension contributions will see a value in this block. For members who retired prior to 2011, a zero will be printed in the block.

BLOCK 12.
(State Income Tax Withheld)
Any Maryland State income tax deducted from your monthly checks is shown in this block. To change the amount being withheld, complete a tax withholding request form (Form 766).

BLOCK 17.
(Pick-Up Contributions)
This figure applies to members whose employers participated in the State Pick-up Program. For an explanation of pick-up contributions, see "State Retirement Pick-up and your taxes" on page 3.

Need a duplicate?
You may request a duplicate of your 1099-R tax form after February 14 by calling the State Retirement Agency at 410-625-5555 or 1-800-492-5909.
The Maryland State Retirement Agency’s Investment Division employs 20 qualified professionals to oversee the day-to-day investment of the widely diversified portfolio by over 200 external money managers including T. Rowe Price, State Street Global Advisors, PIMCO, Goldman Sachs, Earnest Partners, Pyramis Global Investors and BlackRock Investment Management.

The combined results of these efforts are reported each quarter on our website. Simply click on

**sra.maryland.gov**
for the American Association of Retired Persons (AARP). In this position he provides strategic guidance and expertise in all areas of AARP’s financial management, strategy implementation and policy formulation, in addition to AARP’s environmental and physical resources. Mr. Hagans has more than 30 years of work experience in nonprofits and financial management.

KENNETH B. HAINES
As the only candidate to successfully collect the required nominations needed to vie for an elected position on the board, Trustee Haines acceded to the board seat formerly held by Trustee Brown, who concluded his board service in December 2011.

Because Mr. Haines was the only eligible candidate, the election slated for February will not be conducted.

Mr. Haines is president of the Prince George's County Educators’ Association, a bargaining agent with 9,000 members. For each of the last five negotiated agreements since 1998, he has been responsible for the cost-analysis of salary proposals during negotiations with the county school system.

THERESA LOCHTE
Trustee Lochte was reelected in 2011 by her fellow educators to a second term on the board. Ms. Lochte, who was first elected to the board by active and retired teachers in 2007, sits on the board’s administrative and audit committees. She has been active in the Teachers Association of Baltimore County (TABCO) and the Maryland State Education Association (MSEA).

HAROLD ZIRKIN
Trustee Zirkin was reappointed by the Governor to a new term on the board beginning July 2011. He is chairman of the board’s investment committee, vice chair of the securities litigation committee and member of the audit committee. Mr. Zirkin, president of Zirkin-Cutler Investments, Inc., serves as trustee for more than 50 trusts and foundations and is investment counsel for more than 50 pension and retirement accounts.

THURMAN W. ZOLLICOFFER, JR.
Trustee Zollicoffer, another gubernatorial reappointee to the board, began his new term August 2011. He is chairman of the securities litigation committee, vice chair of the corporate governance committee and a member of the investment committee. A partner in the Baltimore-based law firm Whiteford, Taylor & Preston, Mr. Zollicoffer previously served as city solicitor and counsel for the City of Baltimore mayor and city council, a position in which he managed a staff of 110 and a budget of $14 million.

WILLIAM D. BROWN
Trustee Brown represented the interests of members and retirees of the Teachers’ Retirement and Pension Systems, who elected him to four terms in office beginning in 1997. During his 14 years of dedicated board service, Mr. Brown was chairman of both the administrative and audit committees, vice chair of the investment committee and member of the corporate governance subcommittee. Upon retirement from a 30-year teaching career, Mr. Brown became ineligible for his board seat, which by law must be held by an active teacher. At his final meeting, the board thanked Mr. Brown for his “commitment to public service, sound judgment, diligent effort and persistent energy.”

ROBERT W. SCHAEFER
Trustee Schaefer retired from the board in November 2011 after four and a half years of service. Mr. Schaefer, who chaired the board’s investment committee, previously served for seven years as a public advisor to that committee. As investment committee chairman, Mr. Schaefer “provided steady guidance during one of the most volatile periods in the history of the financial markets,” said Board Chairman and State Treasurer Nancy K. Kopp. The board also thanked Mr. Schaefer for his nearly 12 years of service to the system.