

State of Maryland

Maryland Teachers & State Employees Supplemental Retirement Plans,

# Comprehensive Annual Financial Report

401(k), 457, 403(b) & 401(a) Plans



*Year Ended December 31, 2008*

## **NOTICE TO READERS:**

### **Calendar Year 2008 *Prototype* Comprehensive Annual Financial Report on the Maryland Supplemental Retirement Plans**

The Government Finance Officers Association (GFOA) established the Certificate of Achievement for Excellence in Financial Reporting Program (CAFR Program) to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal.

This is the prototype Comprehensive Annual Report of the Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans (MSRP) prepared in the format and with the scope and content suitable for the GFOA financial reporting program. This report covers the calendar year 2008. This report has *not* been submitted for the GFOA review program. This prototype report prepares the MSRP Board and Staff for completing the Calendar Year 2009 Annual Report for MSRP and submitting the document to GFOA for the CAFR Program.



**STATE OF MARYLAND  
MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Comprehensive Annual Financial Report**  
For the Calendar Year Ended  
December 31, 2008

401(k), 457, 403(b) and 401(a) Plans

**Martin O'Malley**, Governor  
**Anthony Brown**, Lt. Governor  
T. Eloise Foster, Chairperson, Board of Trustees  
**Michael Halpin**, Executive Director  
**Debra Roberts**, Director of Finance

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# Maryland Supplemental Retirement Plans

## INTRODUCTORY SECTION



**MSRP**

*Maryland  
Teachers & State Employees  
Supplemental Retirement Plans*

457 ♦ 401(k) ♦ 403(b) ♦ Match

**BOARD OF TRUSTEES**

T. Eloise Foster  
*Chairperson*

Sabrina I. Bass  
Robert W. Black, Jr., CPA  
Nancy K. Kopp  
Linda L. Tanton, Esq.  
William W. Whitescarver  
Marcia Zercoe

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*Secretary to the Board  
Executive Director*

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*Director of Finance*

Richard A. Arthur  
*Technology & Operations Director*

Louis A. Holcomb, Jr., CRC  
*Director of Participant Services*



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or to Enroll  
1-800-545-4730  
or Enroll on-line at  
[www.MarylandDC.com](http://www.MarylandDC.com)*

# Letter of Transmittal

July 28, 2009

Maryland Teachers and State Employees  
Supplemental Retirement Plans Board  
6 Saint Paul Street #200  
Baltimore, MD 21202

Honorable Chairperson and Members of the Board of Trustees:

It is our pleasure to present the 2008 Comprehensive Annual Financial Report of the Maryland Teachers and State Employees Supplemental Retirement Plans (Plans) which consist of four defined contribution plans: 401(k), 457, 403(b) and 401(a) match plan. Together, these plans constitute a fiduciary fund of the State of Maryland, administered by the Maryland Teachers and State Employees Supplemental Retirement Plan Board of Trustees (Board).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rest with the management of the Plans. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the fiduciary fund. The Plans are administered by a third party administrator, Nationwide Retirement Solutions, Inc.

For financial reporting purposes, the Plans utilize Governmental Accounting Standards Board (GASB) Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local governments*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Plans consisting of the 401(k), 457, 403(b) and 401(a) match plan were established by legislation and authorized as indicated in the notes to the basic financial statements. The summaries of plan provisions are presented as well. The purpose of the Plans is to provide benefits for all eligible public education and state of Maryland employees who have elected to participate. Services provided by the staff are performed to meet that objective.

This Comprehensive Annual Financial Report contains five sections. The Introductory Section provides information about the administrative structure of the Plans. The Financial Section provides a comprehensive review of the Plans net assets available for benefits, changes in net assets available for benefits. The Financial Section also contains the report from the Plans independent public accountants, the combining statements and notes to the financial statements. The

Investment Section includes a report highlighting the Plans investment performance in addition to various summary level portfolio compositions and investment data. The Statistical Section provides demographic composition of the Plan's participants for each fund and detailed descriptions of various Plans provisions. The fifth section is additional information provided by management, titled Other Supplementary Schedules. In addition to the Letter of Transmittal, additional narrative, overview and analysis can be found in the Management Discussion and Analysis (MD&A) as listed in the table of contents.

### **Management's Discussion and Analysis**

The MD&A provides an overview and analysis of the Plans basic financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with the MD&A.

### **Economic Condition and Outlook**

Because of the current economic downturn and the effect that higher food and energy costs has had on real economic activity, the Federal Reserve has aggressively lowered policy interest rates to spark future economic growth. The combined impacts of a housing slump, credit market crunch, and soaring costs on mandatory purchases of food and energy have endangered current and future economic growth. We believe that the market returns will remain flat or negative in the short term and that over the long term market returns will increase.

The Plans investments are evaluated by the Board designee, Mercer Consulting, Inc. A comparative analysis of rates of return is presented in the investment section of this report. In addition, the Plans utilize Deutsche Asset Management as a discretionary manager for the Investment Control Pool.

### **Major Issues and Initiatives**

Despite the temporary loss of State matching contributions for the coming calendar year, the Board will continue to provide educational seminars for participants during this period of difficult economic and market conditions. The Board is confident that services to our participants will help mitigate decreases in participation. The decline in asset value as shown in the financial data included in this report has caused a decline in Board revenue collected for administrative expenses because these fees are charged as a percentage of the participants' accounts. In order to fully fund administrative expense, the Board imposed a supplementary fee to participants (for the year ended December 31, 2009). Adjustments in the typical fee structure are possible indications of the challenges we face as result of the market conditions.

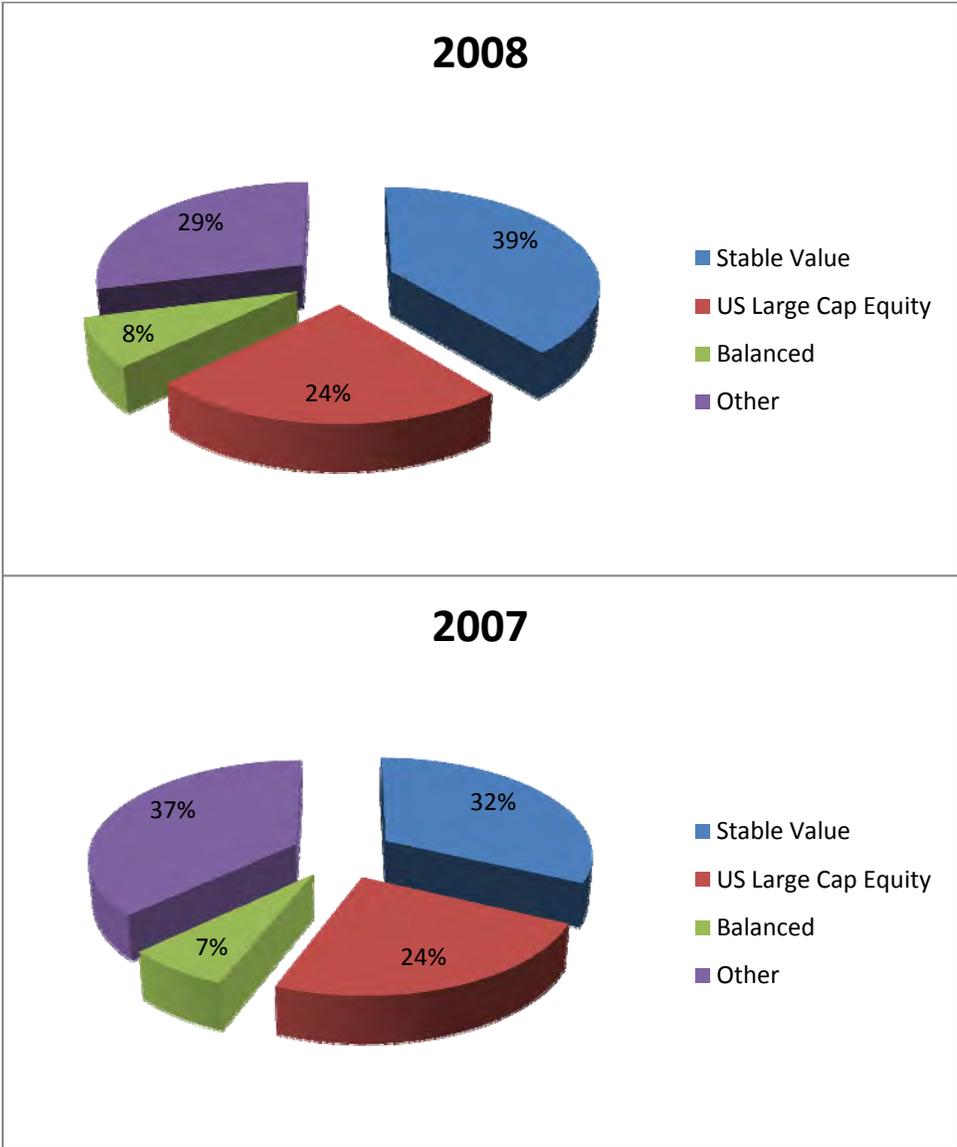
### **Financial Information**

The Board is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management authorization, and are recorded as

necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. We are confident that the financial statements, supporting schedules and statistical tables included in this report presents fairly the Plan's financial condition and changes in net assets available for plan benefits.

**Investments**

The following charts depict allocation of plan assets among the differing general categories of plan investments as of December 31, 2008 and 2007.



Included as other in the above charts are the following types of investment vehicles: money market (in 403(b) only), U.S. fixed, international equities, U.S. small cap, and life-cycle funds. See the MD&A and the Investment Section for a more detailed analysis and information.

## **Investment Risk**

The Plans are long-term retirement savings vehicles and are intended as sources of income for eligible participants. The investment policy is included in this report beginning on page 48.

## **Independent Audit**

An independent audit of the plans was conducted by the independent accounting firm of SB & Company, LLC. The auditor's report on the basic financial statements is included in the Financial Section of this report.

## **Acknowledgement**

Preparation of this report would not have been possible without the dedicated, efficient service of the entire staff and legal counsel. We would like to express our appreciation to all staff who assisted and contributed to the preparation of this report. Credit is given to the Board of Trustees for their unfailing support for maintaining the standards of professionalism in the management of the Plans.

## **Certificate of Achievement for Excellence in Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awards organizations for publishing an easily readable and efficiently organized comprehensive annual financial report (CAFR). In 2008, the Board of Trustees recommended that the Staff prepare a comprehensive annual financial report because they believe that this prestigious award of achievement provides to the participants tangible assurance of our deep commitment to integrity in performance of our fiduciary responsibilities.

This report is our first step in preparing a comprehensive report. We intend to submit future CAFR's to GFOA for consideration.



Michael T. Halpin *CRA*<sup>®</sup> *CRC*<sup>®</sup>  
Executive Director



Debra L. Roberts CPA *CRC*<sup>®</sup>  
Director of Finance



**MSRP**

*Maryland  
Teachers & State Employees  
Supplemental Retirement Plans*

457 ♦ 401(k) ♦ 403(b) ♦ Match

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## A letter from the Chairperson of the Board

July 28, 2009

Over the last year, participants of the Maryland Teachers and State Employees Supplemental Retirements Plans (collectively “the Plans”) have seen the impact of the national recession on their investments. Challenging market conditions continue to adversely impact performance and trading in most sectors of the financial markets. Uncertainty over the housing market decline, weakness in banks, tighter lending conditions, and the crisis in the financial industry, have all affected the markets and participant accounts. Despite these adverse conditions, the Board of Trustees (“the Board”) has sought to ensure that the Plans’ investment options are suitable for individual retirement investing, in accordance with our investment policy and objectives. A copy of the investment policy is in the Investment Section of this report.

Beginning in calendar year 2008 and years thereafter, the Board agreed to submit its annual report to participants in the form of a Comprehensive Annual Financial Report (CAFR). The CAFR provides a comprehensive reporting of financial activities for a governmental organization that clearly reflects the financial results of the Plans in a structured format.

The defined contribution Plans for the State of Maryland are presented within the context of management’s discussion and analysis followed by audited financial statements, investment results, statistical information, 10-year net asset history and demographic information about the Plans’ participants. It is our goal to provide a complete, accurate and organized document in an easy to read format for the benefit of our participants.

Over the past year, the net assets of the Plans have decreased from \$2.53 billion at the beginning of 2007, to \$1.93 billion as of December 31, 2008. Despite adverse economic projections, the net number of participant accounts increased slightly from 68,703 to 69,070. The Plans’ participation level—the percentage of employees participating as of December 31, 2008—rose to 74.93%. As of December 31, 2008, 51% of participants in the Plans are actively deferring. We believe this represents a high level of confidence in the Plans despite the challenging economic conditions.

Clearly, investment performance reflects the poor conditions of the financial markets, which have resulted in a 19% reduction in assets in all four Plans combined over the past year. Nonetheless, the number of actively deferring participants remains stable and the level of average participant deferral amounts has remained consistent or increased. Total dollars

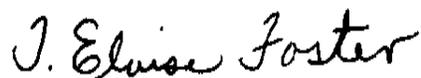
deferred show an even more dramatic result for the year ended December 31, 2008 with the contributions to all four Plans reaching an all-time high of \$188 million. Although past experience shows as much as a 5% drop in deferring participants when the State match is suspended, most participant contributions have continued throughout this difficult period.

The Board and its advisors continue the course of regular investment reviews ensuring that investment options offered to Plan participants are suitable for retirement investment. Recently, the Board installed the T. Rowe Price Mid-Cap Value Fund and closed the Lord Abbett Mid-Cap Value Fund and the Legg Mason Value Trust Fund to new investments. As traditionally occurs with replacement funds, the Board announced the closures with a direct mailing to affected participants notifying them of their continuing right to transfer these funds to a new investment option and that, without such a transfer, the funds in the closed option would be automatically moved to the most similar fund—the T. Rowe Price Mid-Cap Value Fund (Lord Abbett) and the Vanguard Institutional Index Fund (Legg Mason Value Trust). This move successfully occurred on May 22, 2009.

In early 2007, the Board chose to add to the list of MSRP investment options the twelve funds in the T. Rowe Price Target Date Retirement Fund series. Each of the Target Date Funds are managed to a typical investor's retirement year, separated in five year increments. These "lifecycle funds" became part of a communication and education campaign undertaken to reach all participants that was offered in nearly every State agency location. The Plans' enhancement campaign asked participants to review their account and investment selections, and familiarize themselves with the traditional menu of various mutual funds compared to the target date approach of lifecycle funds. The response of participants was very favorable; as a result, approximately 5% of contributing participants are now using the target date retirement funds exclusively and more than 12% of all deferrals are now directed to these funds.

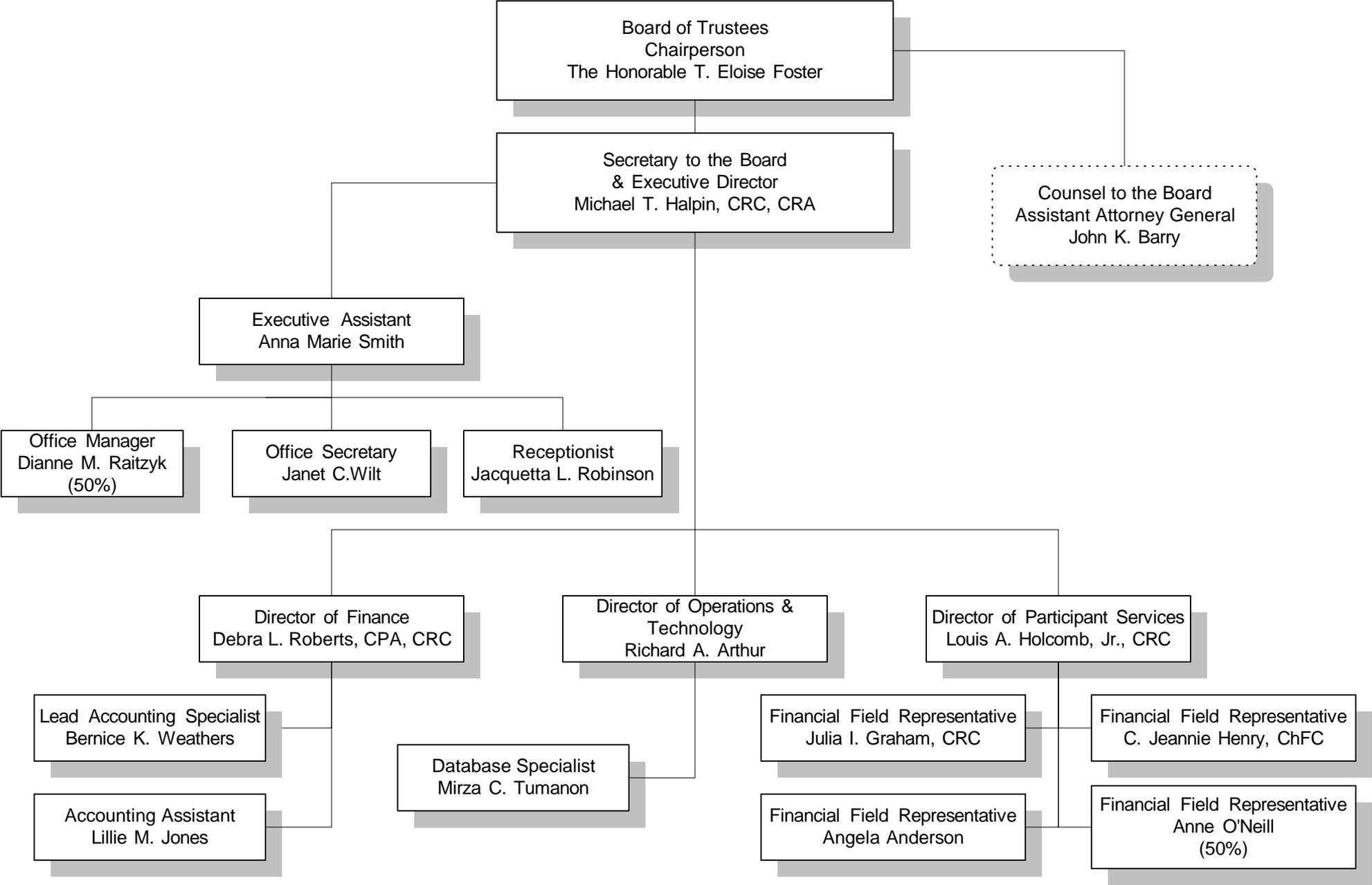
Effective July 1, 2009, the match program was suspended through legislative enactment during the 2009 legislative session. However, this suspension has not affected the December 31, 2008 financial statements. MSRP staff, in coordination with Plan Administrator Nationwide Retirement Solutions, will continue to vigorously promote participation in the Plans. The Board is encouraged that previous efforts have succeeded in limiting contribution decreases when match contributions have been suspended.

The Board is pleased that this report reflects the continuing success of the Plan as well as our ability to ensure its stability during challenging economic times.



Honorable T. Eloise Foster  
Chairperson

# Maryland Teachers & State Employees Supplemental Retirement Plans



## ***MISSION***

To enable State employees and teachers to participate in voluntary tax sheltered income deferral, tax deferred annuity, and profit sharing and salary reduction savings plans that offer members tax advantages as provided in the Internal Revenue Code.

## ***VISION***

A State that sponsors productive voluntary retirement savings programs for all its employees to secure economic stability for themselves and their families in later years.

# ***ABOUT THE PLANS***

The Maryland Deferred Compensation Program was established for Maryland state employees in 1974 by Executive Order 01.01.1974.19 and under Chapter 433 of the Acts of 1974. Subsequently, the U.S. Congress established the 457 Deferred Compensation Plan for public employees as part of the Internal Revenue Code in 1978. In 1975, enrollment began and a seven-member Board of Trustees administered the plan.

Chapter 741 of the Acts of 1985 brought the 457 Deferred Compensation Plan under the direction of a nine-member Board of Trustees. The acts also gave the board authority to administer a 403(b) Tax-Deferred Annuity Plan and a 401(k) Savings and Investment Plan. The Maryland 403(b) plan became operational in 1985, and the Maryland 401(k) plan began in 1990. These three plans came to be known as the Maryland Teachers and State Employees Supplemental Retirement Plans.

In 1998, one of the most significant changes in the history of the plans took place. Chapter 530 of the Acts of 1998 was enacted, that in part provides for a match to eligible employee contributions to State employer sponsored 457, 403(b) and 401(k) supplemental retirement plans. Effective July 1, 1999, a dollar for dollar employer paid match became operational at the statutory maximum of up to \$600 each fiscal year. Contributing participants grew by about 50% over a two-year start up period. Three years later, however, the budget bill for fiscal 2003 reduced the State's maximum contribution to \$500. Funding for the employer match program was eliminated in the fiscal 2004 and 2005 budget bills, but was restored to a \$400 maximum in fiscal 2006 and then a \$600 maximum for fiscal 2007 through 2009. As defined in statute, State

employees who are members of the State Employees Alternate Contributory Pension Selection Plan are eligible for the match. The State's contributions are immediately vested.

In addition to implementing, maintaining and administering the plans, the Board is responsible for submitting progress and status reports to participants; submitting an annual report to the Governor and General Assembly; appointing employees; hiring consultants and administrators, and other professional assistance. Each board member serves on at least one committee. The committees include the Investment Committee and the Audit Committee.

## ***ABOUT THE BOARD***

The Maryland Supplemental Retirement Plans are administered by a nine-member Board of Trustees whose members are appointed by the Governor of Maryland to a staggered four-year term. The Governor selects three members from any of the following departments, agencies or boards: the Department of Budget and Management, the Department of Education, the Comptroller of the Treasury, the State Treasurer's Office, the Maryland State Retirement and Pension Systems or the Maryland Higher Education commission. Three other members are eligible to participate in one or more of the plans, and at least one is eligible for the 403(b) plan. Three additional members represent the general public and are not eligible to participate in the plans. At least one of these members has experience with defined contribution and salary reduction plans.

# *BOARD OF TRUSTEES*

## **BOARD CHAIRPERSON**



**The Honorable T. Eloise Foster, Secretary**  
Department of Budget and Management  
State of Maryland Agency Representative

## **BOARD MEMBERS**



**Ms. Sabrina Bass**  
403(b) Eligible Member



**Mr. Robert W. Black, CPA**  
Public Member



**The Honorable Nancy K. Kopp**  
Treasurer - State of Maryland  
State of Maryland Agency Representative



**Ms. Linda Tanton, Esq.**  
Deputy Comptroller - Office of the Comptroller  
State of Maryland Agency Representative



**Mr. William W. Whitescarver**  
Public Member



**Ms. Marcia Zercoe**  
Public Member

## **BOARD COMMITTEES**

### ***Investment Committee***

William Whitescarver - *Chairperson*

Sabrina Bass

Nancy Kopp

Marcia Zercoe

### ***Audit Committee***

T. Eloise Foster - Chairperson

Robert Black

Linda Tanton

## ***BOARD ADVISORS***

### **General Counsel**

John K. Barry, Esquire

Assistant Attorney General

### **Independent Auditors**

SB & Company, LLC

Certified Public Accountants & Consultants

### **Investment Contract Pool Manager**

Deutsche Asset Management

### **Third Party Administrator**

Nationwide Retirement Solutions, Inc.

### **General Pension Consultant & Investment Advisor**

Mercer Investment Consulting

# Maryland Supplemental Retirement Plans

## FINANCIAL SECTION



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

## Report of Independent Public Accountants

To the Board of Trustees  
Maryland Teachers and State Employees  
Supplemental Retirement Plans  
Baltimore, Maryland

We have audited the accompanying financial statements of net assets available for plan benefits of the State of Maryland Teachers and State Employees Supplemental Retirement Plan (MSRP) as of December 31, 2008 and 2007 and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of MSRP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of MSRP as of December 31, 2008 and 2007 and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, combining statements, investment section, statistical section, and other supplementary information section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, statistical section, and other supplementary information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Hunt Valley, Maryland  
July 28 2009

## **MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

To help facilitate a better understanding of the State of Maryland Teachers and State Employees Supplement Retirement Plan (MSRP) financial condition as of December 31, 2008 and 2007, and the changes in net assets available for plan benefits for the years then ended and policies that govern its operations, management has prepared this narrative analysis. This narrative is intended to supplement the Plan's audited financial statements and should be read in conjunction with these statements which follow this section.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

In accordance with generally accepted accounting principles, the Maryland State Teachers and State Employees Supplemental Retirement Plans (collectively, "the Plan") basic financial statements consist of the comparative Statements of Net Assets Available for Plan Benefits and Statements of Changes in Net Assets Available for Plan Benefits, along with related note disclosures. The statements include a combined statement for all the separate plans, (pp. 39) as well as separate statements for each plan.

The Statements of Changes in Net Assets Available for Plan Benefits are intended to show, on a comparative basis, the major categories of additions to the Plan from participant contributions and investment earnings. They also show the deductions from the Plan for administrative expense and distribution to participants.

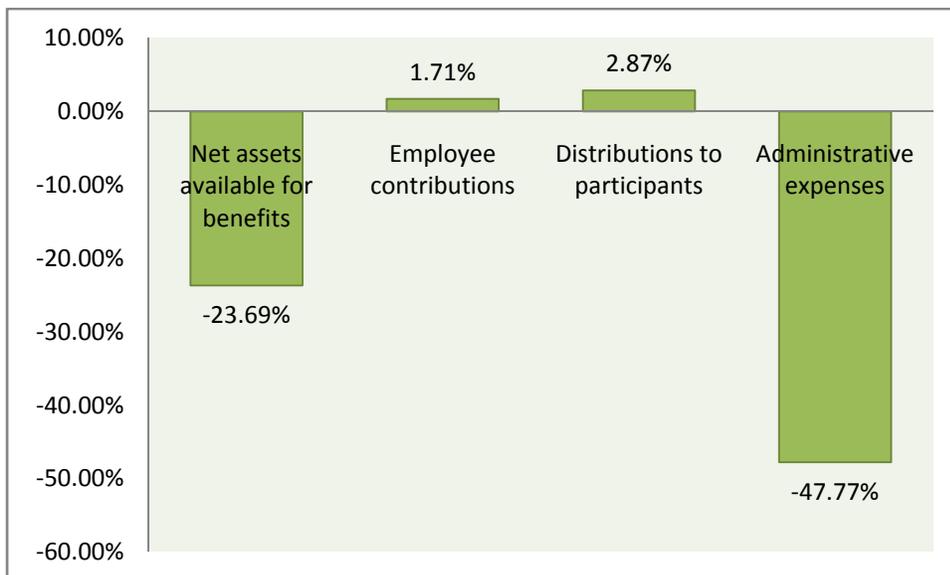
The note disclosures are provided as an integral component of the financial statements to help explain in narrative form some of the more complex or less obvious elements of the statements. The notes to the financial statement provide additional information (e.g. significant accounting policies, types of investment risk) that is essential for a comprehensive understanding of the Plans financial condition and results of its operations.

### **FINANCIAL HIGHLIGHTS**

- Net assets available for plan benefits decreased by \$598.3 million during the year ended December 31, 2008 from \$2.5 billion as of December 31, 2007 to \$1.9 billion as of December 31, 2008. Net assets available for plan benefits increased from \$2.3 billion as of December 31, 2006 to \$2.5 billion as of December 31, 2007. These changes are a result of market conditions (gradual increases in 2007 versus significant decreases in 2008). The diversification of investment options available to participants of the Plan across different asset classes allow participants to reduce market risk by effectively offsetting short-term fluctuations in individual assets classes with other asset classes depending on their individual investment decision.
- The Plan had a net investment loss of \$615.8 million for the year ended December 31, 2008 and a \$124.7 million investment gain as of December 31, 2007. The Plan had net investment gains of \$217.7 for the year ended December 31, 2006. The difficult investment markets have contributed to the investment loss for the year ended December 31, 2008.

- Employee contributions increased slightly from \$157.2 million for the year ended December 31, 2006 to \$164.2 million for the year ended December 31, 2007 to \$167.0 million for the year ended December 31, 2008.
- Distributions to participants increased from \$142.5 million for the year ended December 31, 2006 to \$164.9 million for the year ended December 31, 2007 to \$169.6 million for the year ended December 31, 2008. The increase in the year December 31, 2008 occurred despite the downturn in the market as the Plan educated participants to change their individual portfolio makeup to a more stable set of investments. The increase in distributions during the year ended December 31, 2007 may have been the result of increased pension retirement benefits available to state employees.
- Administrative expenses increased from \$6.4 million for the year ended December 31, 2006 to \$7.0 million for the year ended December 31, 2007 and decreased to \$3.6 million for the year ended December 31, 2008. The administrative expenses are calculated based on a percentage of participant investment balances and therefore increase when the asset values increase and decrease when the asset values decrease. Additionally, the plan entered into a new administrative services agreement with Nationwide Retirement Solutions, Inc., which provided a significantly lower fee - .019% effective January 1, 2008, down from 0.28% for the previous year.

The following chart shows the percentage change from 2007 to 2008 for net assets, employee contributions, distributions to participants and administrative expenses:



The table below gives the net assets available for plan benefits of the Plan as of December 31, 2008, 2007, and 2006:

| <b>ASSETS</b>                                    | <b>2008</b>             | <b>2007</b>             | <b>2006</b>             |
|--|-------------------------|-------------------------|-------------------------|
| Investments                                      | \$ 1,898,664,551        | \$ 2,501,745,247        | \$ 2,363,823,274        |
| Cash surrender value of life insurance contracts | 4,087,776               | 3,590,858               | 3,690,526               |
| Cash   | 2,288,377               | 1,136,148               | 733,121                 |
| Receivables                                      |                         |                         |                         |
| Employee Contributions                           | 4,942,669               | 101,733                 | 97,581                  |
| Asset Fees                                       | 74,601                  | 104,400                 | 97,144                  |
| Loan receivables                                 | 17,192,130              | 18,909,743              | 16,331,381              |
|  |                         |                         |                         |
| Net Assets Available for Plan Benefits           | <b>\$ 1,927,250,104</b> | <b>\$ 2,525,588,129</b> | <b>\$ 2,384,773,027</b> |
|  |                         |                         |                         |

The table below presents the changes in net assets available for plan benefits for the years ended December 31, 2008, 2007 and 2006:

|  | 2008                    | 2007                    | 2006                    |
|--|-------------------------|-------------------------|-------------------------|
| <b>ADDITIONS</b>   |                         |                         |                         |
| Employee contributions   | \$ 167,049,415          | \$ 164,233,839          | \$ 157,201,834          |
| Employer contributions   | 20,839,626              | 20,722,388              | 17,986,400              |
| Mutual fund reimbursements                                     | 2,385,355               | 3,178,679               | 2,494,464               |
| Change in cash surrender value                                 | 521,683                 | (96,753)                | (49,762)                |
| Investment Income:   |                         |                         |                         |
| Realized and unrealized (losses) gains                         | (653,279,727)           | 87,853,034              | 180,809,084             |
| Interest income  | 37,477,898              | 36,884,956              | 36,976,136              |
| <b>Total additions</b>   | <b>(425,005,750)</b>    | <b>312,776,143</b>      | <b>395,418,156</b>      |
| <b>DEDUCTIONS</b>  |                         |                         |                         |
| Distributions to participants                                  | 169,620,199             | 164,895,085             | 142,465,509             |
| Administrative expenses  | 3,655,978               | 7,000,105               | 6,356,481               |
| Life insurance premiums  | 56,098                  | 65,851                  | 75,497                  |
| <b>Total deductions</b>  | <b>173,332,275</b>      | <b>171,961,041</b>      | <b>148,897,487</b>      |
| <b>Net (decrease) increase</b>                                 | <b>(598,338,025)</b>    | <b>140,815,102</b>      | <b>246,520,669</b>      |
| Net assets available for plan benefits,<br>beginning of year   | 2,525,588,129           | 2,384,773,027           | 2,138,252,358           |
| <b>Net assets available for plan benefits,<br/>end of year</b> | <b>\$ 1,927,250,104</b> | <b>\$ 2,525,588,129</b> | <b>\$ 2,384,773,027</b> |

### Requests for Information

This financial report is designed to provide a general overview and available upon request. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Debra Roberts, Chief Financial Officer, Maryland Teachers and State Employees Supplemental Retirement Plans, William Donald Schaefer Tower, Suite 200, 6 Saint Paul Street, Baltimore, Maryland 21202.

# Maryland Supplemental Retirement Plans

## BASIC FINANCIAL STATEMENTS

**MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Statements of Net Assets Available for Plan Benefits  
As of December 31, 2008 and 2007**

| <b>ASSETS</b>                                    | <u><b>2008</b></u>             | <u><b>2007</b></u>     |
|--|--------------------------------|------------------------|
| Investments                                      | <b>\$ 1,898,664,551</b>        | \$2,501,745,247        |
| Cash surrender value of life insurance contracts | <b>4,087,776</b>               | 3,590,858              |
| Cash   | <b>2,288,377</b>               | 1,136,148              |
| Receivables                                      |                                |                        |
| Employee contributions                           | <b>4,942,669</b>               | 101,733                |
| Asset fees                                       | <b>74,601</b>                  | 104,400                |
| Loans receivable                                 | <b>17,192,130</b>              | 18,909,743             |
|  | <u><b>\$ 1,927,250,104</b></u> | <u>\$2,525,588,129</u> |
| Net Assets Available for Plan Benefits           |                                |                        |

**MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Statements of Changes in Net Assets Available for Plan Benefits  
For the Years Ended December 31, 2008 and 2007**

|  | <u>2008</u>                    | <u>2007</u>                    |
|--|--------------------------------|--------------------------------|
| <b>ADDITIONS TO NET ASSETS ATTRIBUTED TO</b>               |                                |                                |
| Employee contributions                                     | \$ 167,049,415                 | \$ 164,233,839                 |
| Employer contributions                                     | 20,839,626                     | 20,722,388                     |
| Mutual fund reimbursements                                 | 2,385,355                      | 3,178,679                      |
| Change in cash surrender value                             | 521,683                        | (96,753)                       |
| Investment income:   |                                |                                |
| Realized and unrealized (losses) gains                     | (653,279,727)                  | 87,853,034                     |
| Interest income  | 37,477,898                     | 36,884,956                     |
| Total additions  | <u>(425,005,750)</u>           | <u>312,776,143</u>             |
| <b>DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO</b>            |                                |                                |
| Distributions to participants                              | 169,620,199                    | 164,895,085                    |
| Administrative expenses                                    | 3,655,978                      | 7,000,105                      |
| Life insurance premiums                                    | 56,098                         | 65,851                         |
| Total deductions   | <u>173,332,275</u>             | <u>171,961,041</u>             |
| <b>Net (decrease) increase</b>                             | <b>(598,338,025)</b>           | <b>140,815,102</b>             |
| Net assets available for plan benefits, beginning of year  | <u>2,525,588,129</u>           | <u>2,384,773,027</u>           |
| <b>Net Assets Available for Plan Benefits, End of Year</b> | <b><u>\$ 1,927,250,104</u></b> | <b><u>\$ 2,525,588,129</u></b> |

# MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

## Notes to the Financial Statements December 31, 2008 and 2007

### 1. ORGANIZATION

The Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) consist of four defined contribution plans that are generally available to all eligible employees and officials of the State of Maryland. The MSRP operates pursuant to the provisions of the State Personnel and Pensions Article of the Maryland Code Titles 32 and 35 and is governed by a Board of Trustees.

The MSRP consists of four separate defined contribution plans: Deferred Compensation Plan under Internal Revenue Code (the Code or IRC) Section 457; Savings and Investment Plan IRC Section 401(k); Match Plan, Section IRC 401(a); and Tax Sheltered Annuity Plan, IRC Section 403(b) (collectively, the Plans). The MSRP has approximately 61,500 participants as of December 31, 2008. MSRP is a fiduciary fund of the State of Maryland.

The State of Maryland (the State) Employees Deferred Compensation Plan (the 457 Plan) was established by an executive order of the Governor of the State of Maryland on August 15, 1974. The 457 Plan operates pursuant to the provision of Title 35 of the State Personnel & Pensions Article of the Maryland Code and a plan document adopted by MSRP's Board of Trustees (the Board).

The State Savings and Investment Plan (the 401(k) Plan) was established by the State on July 1, 1985 and is designed to be a tax-qualified 401(k) profit sharing plan IRC Sections 401(a) and 401(k).

The State Match Plan and Trust (the Match Plan) was established by the State pursuant to Title 32 of the State Personnel & Pensions Article of the Maryland Code on July 1, 1999 (commencement date) and is designed to be a tax-qualified 401(a) defined contribution matching plan under Code Section 401(a).

The State Tax Sheltered Annuity Plan (the 403(b) Plan) was established by the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plan (the Board) pursuant to Title 35 of the State Personnel & Pensions Article of the Maryland Code.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

# MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

## Notes to the Financial Statements December 31, 2008 and 2007

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

#### Risks and Uncertainties

The MSRP invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for plan benefits.

#### Contributions

Eligible employees of the State or governmental agencies of the State may contribute to the 457 Plan, 401(k) Plan, or the 403(b) Plan through payroll deductions. In accordance with the Internal Revenue Code, the MSRP limits the amount of an individual's annual contributions to an amount not to exceed the lesser of \$15,500, or approximately 100% of their annual gross salary (as defined) for the year. Individuals age 50 or over may make an additional "Catch-up" contribution effective for tax years after December 31, 2001. This limit is subject to an annual cost of living adjustment. Amounts contributed by employees are deferred for Federal and state income tax purposes until benefits are paid to the employees.

Under 401(a) Plan provisions, the State contributes to each participant's 401(a) account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. The State has implemented a statutory ceiling for amounts contributed to the 401(a) Plan for each participant to be \$600. A participant may receive more than \$600 in matching contributions during the MSRP's fiscal year, but may not exceed the maximum \$600 contribution for any State fiscal year. Contributions are credited by the applicable investment selected by the employee/plan participant upon receipt from the State.

# MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

## Notes to the Financial Statements December 31, 2008 and 2007

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Participant Accounts

Employee contributions receivable represents amounts withheld from employees' pay but not remitted to the investment carriers as of December 31. Contributions are credited by the applicable investment carrier upon receipt from the State. Employee contributions are fully vested at all times. The State does not make any contributions to the 457 Plan, 401(k) Plan, or the 403(b) Plan, but the State does make certain matching contributions to a separate tax qualified 401(a) Plan contingent on employee contributions to the 457 Plan, the 401(k) Plan, or the 403(b) Plan.

Employees electing to contribute to the MSRP have the following investment options:

- An investment contract pool consists of a money market fund, guarantee investment contracts written by insurance companies and synthetic guaranteed investment contracts written by various insurance companies and other financial institutions.
- Mutual Fund investments.
- A group annuity contract underwritten by Great-West Life Assurance Company (Great-West) and formerly offered to participants in the 403(b) Plan. This investment option is no longer available for new contributions in MSRP.
- Fixed annuities underwritten by Nationwide Life which is available as an option in the 457 Plan, but is closed to new contributors since 1986.

#### Payment of Benefits

Employees investing in MSRP may withdraw the value of their accounts in accordance with the IRC, which is generally upon termination of employment from the State, because of financial hardship, if approved by the Board, or in order to satisfy minimum distribution requirements. Additionally, employees are eligible to receive benefits under the 401(k) and 403(b) plans upon attainment of age 59 ½.

Employees eligible to receive benefits subject to Internal Revenue Service regulations may select various payout options, which include lump sum, periodic or annuity payments. Purchased annuity payout options are offered by Nationwide Life Insurance Company and Metropolitan Life Insurance Company.

At retirement or termination of employment, employees investing in life insurance contracts—which are closed to additional participants—may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. At the time of death of an employee, the face value of the insurance contract is payable to the beneficiary.

## **MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS**

### **Notes to the Financial Statements**

**December 31, 2008 and 2007**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

At death, with certain exceptions, any amount due under the participant's account is paid to the beneficiary or the estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

#### **Participant Loans**

Participants may borrow from their accrued benefit balance in accordance with plan provisions and applicable IRC regulations; however, loans are not available from the 401(a) match plan. The maximum amount a participant may borrow is equal to the lesser of (a) 50% the value of their account or (b) \$50,000. Interest on loans is determined by the Board, but may not exceed the maximum ratio permitted by all applicable laws.

All loans must be repaid on a periodic basis, not less than quarterly, over a period not to exceed five years, with the exception of loans used to acquire, construct, reconstruct or substantially rehabilitate a dwelling that is to be used as a principal residence. Such loans shall provide for repayment over a period not to exceed fifteen years.

#### **Investment Valuation and Income Recognition**

Fixed earnings investments, represented by investment contract pools are valued at contract value. The investment contract pool is managed by Deutsche Asset Management under a management agreement. It consists of book value instruments such as investment contracts, pooled funds and separate account insurance and/or bank investment contracts. New contracts are awarded periodically based upon a competitive bid process.

During 1997, a Master Trust was established to hold the investment contract pools underlying this investment option. Under the Master Trust arrangement, contributions of participants who elect this investment option for the Maryland State Employees Deferred Compensation Plan, the State of Maryland Savings and Investment Plan, and/or the State of Maryland Match Plan and Trust are combined and held in the Master Trust. Each plan has an undivided interest in the investment contract pools held by the trust and each plan's ownership is represented by its proportionate dollar interest. Interest rates are reset quarterly based on the estimated yield for the quarter. Effective 1/1/09 the manager shifted to a monthly reset of the interest rate.

# MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

## Notes to the Financial Statements December 31, 2008 and 2007

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investment Valuation and Income Recognition** (continued)

The investment contract pools are valued at contract value, which represents contributions received plus interest earned to date less applicable charges and amounts withdrawn.

Mutual Fund investments are presented at fair value based on net assets value as provided by the investment carrier. All purchases and sales of investments are recorded on a trade-date basis.

Earnings are accrued to individual participant's accounts based upon the investment performance of the specific options selected.

Assets held for annuity payout reserves are valued at the actuarially determined present value of estimated future distributions.

#### **Cash Surrender Value**

Participants have made premium payments on life insurance contracts through salary deferral. The cash surrender value of these contracts is based on reporting by the life insurance company. This option is no longer available to new participants but participants with policies may continue to make contributions.

#### **Mutual Fund Reimbursements**

Mutual fund reimbursements represent amounts received from Mutual fund investment providers for the benefit of the participants under expense reimbursement arrangements. Amounts recorded are those reimbursements actually received during the year. These amounts are periodically redistributed on a pro-rata basis to current participants in the Mutual fund that paid the reimbursement.

**MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Notes to the Financial Statements  
December 31, 2008 and 2007**

**3. INVESTMENTS AND INVESTMENT INCOME**

Investments held including a discontinued group annuity contract and annuity reserves held by Nationwide Life and Metropolitan Life, as of December 31, 2008 and 2007, are as follows:

| <b>ASSETS</b>   | <b>2008</b>             | <b>2007</b>             |
|---|-------------------------|-------------------------|
| <b>Fixed earnings investments</b> – Investment Contract Pool    | \$ 728,895,676          | \$ 624,400,457          |
| <b>Mutual fund investments:</b>                                 |                         |                         |
| Fidelity® Puritan Fund  | 155,827,435             | 243,818,311             |
| Goldman Sachs Large cap Value Fund – Institutional Shares       | 107,442,333             | 197,145,780             |
| Vanguard Institutional Index Fund – Institutional Plus          | 124,657,449             | 215,881,701             |
| EuroPacific Growth Fund ® - Class A                             | 91,812,938              | 165,396,732             |
| Legg Mason Value Trust – Institutional Class                    | 86,602,179              | 227,659,639             |
| Dreyfus Midcap Index Fund, Inc.                                 | 71,119,080              | 120,552,746             |
| Neuberger Berman Equity Fund ® - Partners Fund                  | 64,589,090              | 140,808,656             |
| The Growth Fund of America ®, Inc. – Class A                    | 68,712,343              | 108,030,716             |
| PIMCO Total Return Fund – Institutional Shares                  | 67,553,596              | 49,090,071              |
| T. Rowe Price Small-Cap Stock Fund, Inc.                        | 52,887,199              | 84,859,620              |
| Lord Abbott Mid-Cap Value Fund – Class A                        | 25,180,638              | 48,028,172              |
| Vanguard Small Cap Growth Index – Institutional Shares          | 17,927,943              | 29,278,997              |
| T. Rowe Price Retirement 2020 fund                              | 17,401,249              | 16,043,334              |
| T. Rowe Price Retirement 2015 Fund                              | 15,929,290              | 17,207,896              |
| T. Rowe Price Retirement 2010 Fund                              | 11,486,674              | 11,551,561              |
| Van Kampen Mid Cap Growth Fund – Class A                        | 9,090,799               | 13,018,595              |
| T. Rowe Price Retirement 2025 Fund                              | 11,373,148              | 10,105,965              |
| Vanguard Prime Money Market Fund - Institutional Shares         | 8,125,558               | 6,289,790               |
| T. Rowe Price Retirement 2030 Fund                              | 9,202,659               | 7,544,144               |
| Vanguard Total International Stock Index Fund – Investor Shares | 6,660,331               | 10,323,905              |
| Great West Life Assurance Company                               | 4,650,406               | 4,125,137               |
| Vanguard Small Cap Value Index – Investor Shares                | 3,867,619               | 4,139,320               |
| T. Rowe Price Retirement 2035 Fund                              | 4,783,742               | 4,692,637               |
| Vanguard Value Index Fund – Investor Shares                     | 3,351,214               | 3,186,760               |
| T. Rowe Price Retirement 2040 Fund                              | 3,544,004               | 2,929,191               |
| T. Rowe Price Retirement 2005 Fund                              | 2,994,407               | 3,314,687               |
| T. Rowe Price Retirement Income Fund                            | 1,698,252               | 1,140,921               |
| T. Rowe Price Retirement 2045 Fund                              | 1,443,220               | 838,148                 |
| T. Rowe Price Retirement 2050 Fund                              | 591,752                 | 440,248                 |
| T. Rowe Price Retirement 2055 Fund                              | 352,293                 | 440,844                 |
|   | <u>1,779,754,516</u>    | <u>2,372,284,681</u>    |
| Discontinued investment options – Nationwide Fixed Annuities    | 92,123,170              | 99,924,947              |
| Nationwide Life annuity payout reserves                         | 20,467,404              | 22,854,159              |
| Metropolitan Life annuity payout reserves                       | 6,319,461               | 6,681,460               |
| <b>Total Investments</b>  | <u>\$ 1,898,664,551</u> | <u>\$ 2,501,745,247</u> |

# MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

## Notes to the Financial Statements December 31, 2008 and 2007

### 3. INVESTMENTS AND INVESTMENT INCOME (continued)

The Nationwide Life fixed annuities reflect investments made under a fixed group annuity contracts with Nationwide Life. That contract has been closed to new contributions since January 1, 1987.

Investment contract pool interest income is recorded based upon a blended rate of the contractual interest of all investment contracts in force during the period. These amounts are credited to the participants' accounts prior to charges for administrative expenses charged by the Administrator and the Board of the Plan. The blended gross interest rate was 4.52% as of December 31, 2008 and ranged from 4.39% to 4.81% during the year ended December 31, 2008. The blended gross interest rate was 4.87% as of December 31, 2007 and ranged from 4.85% to 4.99% during the year ended December 31, 2007. The contract value at December 31, 2008 was \$728,895,676. The fair market value as of December 31, 2008 was \$683,084,752 and the wrapper value was \$1,953,244.

Interest income on investments in Nationwide Life fixed annuities and annuity payout reserves are recorded as earned on an accrual basis. Beginning in 1982, based upon the date of contribution, Nationwide Life initiated a plan for paying different rates to specific pools of money. The gross interest rate paid on fixed annuity contributions was 4.51% as of December 31, 2008 and ranged from 4.5% to 4.55%, and was 4.55% as of December 31, 2007 and ranged from 4.55% to 4.65% for the year then ended.

The fixed earnings investment with the Great-West Fixed Investment Fund is valued at contract value, which represents costs plus interest credited at guaranteed rates (subject to quarterly market adjustments, as reported by Great-West at December 31). These amounts are credited to the participant's accounts prior to charges for administration expenses charged by the Administrator and the Board of the Plan. The gross interest rate paid on contributions to this investment was 4.33% and 4.53% in 2008 and 2007, respectively.

Mutual Fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the underlying investments.

MSRP discloses investment risks, below, in accordance with Government Accounting Standards Board Statement No. 40, which defines these risks as follows:

*Interest Rate Risk.* Interest risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Notes to the Financial Statements  
December 31, 2008 and 2007**

**3. INVESTMENTS AND INVESTMENT INCOME (continued)**

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to of an investment in a single issuer.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either (a) the counterparty, or (b) the counterparty's trust department or agent but not in MSRP's name.

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

The investments and weighted average maturities as of December 31, 2008 and 2007 are as follows:

|   | <b>December 31, 2008</b> |                                  |
|---|--------------------------|----------------------------------|
|   | <b>Valuation</b>         | <b>Weighted Average Maturity</b> |
| Investment Contract Pool                                | \$ 728,895,676           | 2.74 years                       |
| Mutual Fund:  |                          |                                  |
| PIMCO Total Return Fund – Institutional shares          | \$ 67,553,596            | 5.32 years                       |
| Great-West Fixed Investment Fund                        | \$ 4,650,406             | 5.34 years                       |
| Mutual Fund:  |                          |                                  |
| Vanguard Prime Money Market Fund – Institutional Shares | \$ 8,125,558             | 0.21 years                       |

**MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Notes to the Financial Statements  
December 31, 2008 and 2007**

**3. INVESTMENTS AND INVESTMENT INCOME (continued)**

|  | <b>December 31, 2007</b> |                                      |
|--|--------------------------|--------------------------------------|
|  | <b>Valuation</b>         | <b>Weighted Average<br/>Maturity</b> |
| Investment Contract Pool                                   | \$ 624,400,457           | 3.58 years                           |
| Mutual Fund:   |                          |                                      |
| PIMCO Total Return Fund –<br>Institutional shares          | \$ 49,090,071            | 6.41 years                           |
| Great-West Fixed Investment Fund                           | \$ 4,125,137             | 6.35 years                           |
| Mutual Fund:   |                          |                                      |
| Vanguard Prime Money Market<br>Fund – Institutional Shares | \$ 6,289,790             | 0.17 years                           |

*Interest rate risk, credit risk and concentration of credit risk.* Since all investments are participant directed, all risks are at the participant level. Each individual has the ability to liquidate their positions on demand and have responsibility for managing their exposure to fair value loss. Participants have the option to change their investment options to any investment available to alter their interest rate risk.

The investments in the contract pool have an average reported credit rating of AA+ throughout the year ended December 31, 2008 and 2007. Mutual Funds are unrated.

*Custodial credit risk – deposits* is the risk that, in the event of a bank failure, MSRP's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in MSRP's name.

All deposits of MSRP, consisting of amounts held by the agency for an administrative expense, are held on behalf of MSRP by the State of Maryland in accordance with the formal deposit policy for custodial credit risk of the State.

# MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

## Notes to the Financial Statements December 31, 2008 and 2007

### 4. LIFE INSURANCE

The amount of life insurance in force with Unum Life was approximately \$10,159,874 and \$12,315,560 as of December 31, 2008 and 2007, respectively. Participants in the Plan contributed \$56,098 and \$65,851 towards premiums for life insurance contracts offered by Unum during the years ended December 31, 2008 and 2007, respectively. At the time of retirement or termination of employment from the state, employees have the option of continuing to make the life insurance premium payments or to receive the cash surrender value of the policy.

### 5. ADMINISTRATIVE EXPENSES

The Board has appointed Nationwide<sup>®</sup> Retirement Solutions, Inc. (NRS), as the administrator under an administrative services contract. NRS is a subsidiary of Nationwide Financial Services, Inc., the owner of Nationwide Life and provider of certain fixed annuities.

The current contract with NRS to provide administrative services to MSRP under Board authority became effective January 1, 2008. Under the agreement, NRS provides administrative services, such as account statements, monitoring financial transactions, participant relations, and general management. Fees were charged by NRS at an annual rate of 0.14% in 2008 (and 0.23% in 2007 under the prior agreement) against the mutual fund, investment contract pool and fixed annuity assets.

During 2008 and 2007, an additional charge of 0.05% was imposed by MSRP for its expenses (staff, auditor, consultants, education and other administrative expenses). The fees are collected directly from participant's accounts. The annual cap on participant charges was \$2,000 for 2008 and 2007.

Participants choosing to exercise the loan options are assessed an origination fee of \$50.

The cash balance in the accompanying financial statements as of December 2008 and 2007 represents charges assessed by the Board from all deferred compensation plans and held as pooled cash by the Maryland State Treasurer in excess of expenses paid on behalf of the Board. By State law, this amount does not revert to the general fund of the State but constitutes a dedicated fund or reserve for use by the 457 Plan, pursuant to the usual State appropriation process to be held for administrative expenses in the nature of a reserve fund. The cash reserve balance was \$321,054 and \$698,632 as of December 31, 2008 and 2007, respectively. The remaining balance represents the unallocated portion of Executive Life Rehabilitation distribution for the investment contract pool. These amounts were allocated to participants in March 2009.

**MARYLAND TEACHERS AND STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**Notes to the Financial Statements  
December 31, 2008 and 2007**

**6. TAX STATUS**

In the opinion of the State's legal counsel, the Plans are exempt from income taxes under the applicable section of the Code and, therefore, the amounts contributed by the State on behalf of the employees participating in MSRP are not subject to Federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, the participant's beneficiary, or the participant's estate.

**7. RELATED PARTIES**

Certain members of the Board of Trustees are participants in one or more Plans in the MSRP.

## **COMBINING STATEMENTS**

**Maryland Supplemental Retirement Plans**  
**Combining Statement of Net Assets Available for Plan Benefits**  
**As of December 31, 2008**

|  | <u>Deferred<br/>Compensation<br/>Plan Section 457</u> | <u>Savings and<br/>Investment Plan<br/>Section 401(k) Plan</u> | <u>Match Plan and<br/>Trust 401(a) Plan</u> | <u>Tax Sheltered<br/>Annuity Plan 403(b)<br/>Plan</u> | <u>Total</u>            |
|--|---|--|---|---|-------------------------|
| Investments                                      | \$ 986,899,375  | \$ 749,297,929   | \$ 112,996,854                              | \$ 49,470,393   | \$ 1,898,664,551        |
| Cash surrender value of life insurance contracts | 4,087,776   | -  | -   | -   | 4,087,776               |
| Cash   | 2,288,377   | -  | -   | -   | 2,288,377               |
| Receivables:                                     |   |  |   |   |                         |
| Employee receivable                              | 1,887,252   | 2,649,394  | 356,967                                     | 49,056  | 4,942,669               |
| Asset fees                                       | 74,601  | -  | -   | -   | 74,601                  |
| Loans receivable                                 | 8,015,883   | 9,048,410  | -   | 127,837   | 17,192,130              |
| Total Assets                                     | <u>\$ 1,003,253,264</u>                               | <u>\$ 760,995,733</u>  | <u>\$ 113,353,821</u>                       | <u>\$ 49,647,286</u>                                  | <u>\$ 1,927,250,104</u> |

**Maryland Supplemental Retirement Plans**  
**Combining Statement of Changes in Net Assets Available for Plan Benefits**  
**For the year ended December 31, 2008**

|                                | <u>Deferred<br/>Compensation<br/>Plan Section 457</u> | <u>Savings and<br/>Investment Plan<br/>Section 401(k) Plan</u> | <u>Match Plan and<br/>Trust 401(a) Plan</u> | <u>Tax Sheltered<br/>Annuity Plan 403(b)<br/>Plan</u> | <u>Total</u>            |
|--------------------------------|---|--|---|---|-------------------------|
| Additions:                     |   |  |   |   |                         |
| Employee contributions         | \$ 68,108,751   | \$ 95,898,797  | \$ -  | \$ 3,041,867  | \$ 167,049,415          |
| Employer contributions         | -   | -  | 20,839,626                                  | -   | 20,839,626              |
| Mutual fund reimbursements     | 1,071,061   | 1,032,238  | 159,786                                     | 122,270   | 2,385,355               |
| Change in cash surrender value | 521,683   | -  | -   | -   | 521,683                 |
| Investment income:             |   |  |   |   |                         |
| Realized and unrealized losses | (285,359,600)   | (297,240,209)  | (46,975,308)                                | (23,704,610)  | (653,279,727)           |
| Interest income                | 24,272,486  | 11,591,054   | 1,412,795                                   | 201,563   | 37,477,898              |
| Total additions                | <u>(191,385,619)</u>                                  | <u>(188,718,120)</u>   | <u>(24,563,101)</u>                         | <u>(20,338,910)</u>                                   | <u>(425,005,750)</u>    |
| Distribution to participants   | 97,490,302  | 62,995,066   | 4,860,035                                   | 4,274,796   | 169,620,199             |
| Administrative expenses        | 1,272,972   | 1,978,213  | 268,020                                     | 136,773   | 3,655,978               |
| Life insurance premiums        | 56,098  | -  | -   | -   | 56,098                  |
| Total deductions               | <u>98,819,372</u>                                     | <u>64,973,279</u>  | <u>5,128,055</u>                            | <u>4,411,569</u>                                      | <u>173,332,275</u>      |
| Net decrease                   | (290,204,991)   | (253,691,399)  | (29,691,156)                                | (24,750,479)  | (598,338,025)           |
| Beginning of period            | <u>1,293,458,255</u>                                  | <u>1,014,687,132</u>   | <u>143,044,977</u>                          | <u>74,397,765</u>                                     | <u>2,525,588,129</u>    |
| End of period                  | <u>\$ 1,003,253,264</u>                               | <u>\$ 760,995,733</u>  | <u>\$ 113,353,821</u>                       | <u>\$ 49,647,286</u>                                  | <u>\$ 1,927,250,104</u> |

**Maryland Supplemental Retirement Plans**  
**Combining Statement of Net Assets Available for Plan Benefits**  
**As of December 31, 2007**

|  | <u>Deferred<br/>Compensation<br/>Plan Section 457</u> | <u>Savings and<br/>Investment Plan<br/>Section 401(k)</u> | <u>Match Plan and<br/>Trust Plan Section<br/>401(a) Plan</u> | <u>Tax Sheltered<br/>Annuity Plan<br/>Section 403(b)</u> | <u>Total</u>            |
|--|---|---|--|--|-------------------------|
| Investments                                      | \$ 1,279,578,209                                      | \$ 1,004,883,408  | \$ 143,044,977   | \$ 74,238,653  | \$ 2,501,745,247        |
| Cash surrender value of life insurance contracts | 3,590,858   | -   | -  | -  | 3,590,858               |
| Cash   | 1,136,148   | -   | -  | -  | 1,136,148               |
| Receivables:                                     |   |   |  |  |                         |
| Employee receivable                              | 41,773  | 57,232  | -  | 2,728  | 101,733                 |
| Asset fees                                       | 104,400   | -   | -  | -  | 104,400                 |
| Loans receivable                                 | 9,006,867   | 9,746,492   | -  | 156,384  | 18,909,743              |
| Total Assets                                     | <u>1,293,458,255</u>                                  | <u>1,014,687,132</u>                                      | <u>143,044,977</u>   | <u>74,397,765</u>  | <u>2,525,588,129</u>    |
| Assets available for plan benefits               | <u>\$ 1,293,458,255</u>                               | <u>\$ 1,014,687,132</u>                                   | <u>\$ 143,044,977</u>  | <u>\$ 74,397,765</u>                                     | <u>\$ 2,525,588,129</u> |

**Maryland Supplemental Retirement Plans**  
**Combining Statement of Changes in Net Assets Available for Plan Benefits**  
**For the year ended December 31, 2007**

|  | Deferred<br>Compensation<br>Plan Section 457 | Savings and<br>Investment Plan<br>Section 401(k) Plan | Match Plan and<br>Trust 401(a) Plan | Tax Sheltered<br>Annuity Plan<br>403(b) Plan | Total              |
|--|--|---|-------------------------------------|--|--------------------|
| <b>Additions:</b>                          |  |   |                                     |  |                    |
| Employee contributions                     | \$ 66,712,955                                | \$ 94,729,303   | \$ -                                | \$ 2,791,581                                 | \$ 164,233,839     |
| Employer contributions                     | -  | -   | 20,722,388                          | -  | 20,722,388         |
| Mutual Fund reimbursements                 | 1,510,268                                    | 1,325,748   | 175,209                             | 167,454                                      | 3,178,679          |
| Change in cash surrender value             | (96,753)                                     | -   | -                                   | -  | (96,753)           |
| <b>Investment income:</b>                  |  |   |                                     |  |                    |
| Realized and unrealized gains              | 41,553,442                                   | 37,962,452  | 4,488,320                           | 3,848,820                                    | 87,853,034         |
| Interest income                            | 24,627,451                                   | 10,814,169  | 1,235,961                           | 207,375                                      | 36,884,956         |
| <b>Total additions/(reductions)</b>        | <b>134,307,363</b>                           | <b>144,831,672</b>                                    | <b>26,621,878</b>                   | <b>7,015,230</b>                             | <b>312,776,143</b> |
| <b>Deductions:</b>                         |  |   |                                     |  |                    |
| Distribution to participants               | 96,221,412                                   | 56,946,200  | 4,754,283                           | 6,973,190                                    | 164,895,085        |
| Administrative expenses                    | 3,577,699                                    | 2,836,711   | 370,113                             | 215,582                                      | 7,000,105          |
| Life insurance premiums                    | 65,851                                       | -   | -                                   | -  | 65,851             |
| <b>Total deductions</b>                    | <b>99,864,962</b>                            | <b>59,782,911</b>                                     | <b>5,124,396</b>                    | <b>7,188,772</b>                             | <b>171,961,041</b> |
| <b>Net increase/(decrease)</b>             | <b>34,442,401</b>                            | <b>85,048,761</b>                                     | <b>21,497,482</b>                   | <b>(173,542)</b>                             | <b>140,815,102</b> |
| <b>Assets available for plan benefits:</b> |  |   |                                     |  |                    |
| Beginning of period                        | 1,259,015,854                                | 929,638,371   | 121,547,495                         | 74,571,307                                   | 2,384,773,027      |
| End of period                              | \$ 1,293,458,255                             | \$ 1,014,687,132                                      | \$ 143,044,977                      | \$ 74,397,765                                | \$2,525,588,129    |

# Maryland Supplemental Retirement Plans

## INVESTMENT SECTION

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# ***INVESTMENT ADVISOR'S REPORT***

For the year ended December 31, 2008

The report below discusses the overall performance of the plan investments for the year ending December 31, 2008. Data for this report was compiled by the Plan's Investment Consultant, Mercer Investment Consulting, Inc. The year ended with an overall decrease in plan assets. The complex and volatile market conditions contributed to a significant decrease in plan assets. The stock market declined throughout the year as a result of ongoing problems in the credit markets and continued investor risk aversion.

## **Domestic Equity Mutual Funds**

### **Index Performance**

Large cap stocks, as measured by the S&P 500 Index, were down by 37% in 2008, the worst year since 1937. Small cap stocks held up better over the year, losing 33.8%. Mid cap stocks posted the weakest performance, declining 41.5% for the year.

Value outperformed growth across all market capitalizations during the year, though the margin was less significant in the large cap space. For the year, losses were least severe for small cap value stocks, which fell 28.9%.

### **Domestic Equity Funds Performance**

The median domestic equity mutual fund declined 38.4% in 2008. For the year, funds invested in value stocks mitigated losses better than growth stock funds. Small cap value funds, down 31.7%, fared best. Mid cap growth funds suffered the largest losses, losing 43.6%.

## **Fixed Income Mutual Funds**

### **Index Performance**

The bond market experienced continued investor risk aversion and increased spread widening through the year. The Barclays Capital Aggregate Bond Index experienced a 5.2% gain for the year. Treasuries, up 13.7% for the year, outperformed all spread sectors as investors' flight to quality drove yields down. The Citigroup High Yield Market Index posted a solid gain in December but remained in negative territory for the year, declining 25.9% respectively. The Citigroup Non-U.S. Bond Index posted a 10.1% gain in 2008.

### **Fixed Income Funds Performance**

The median domestic bond fund fell 2.9% for the year. Long-duration bond funds which were up 5.5% for the same period, offered the best results. High-yield bond funds were down 24.5% during the year. International bond edged up 0.8% for the year, outpacing domestic bond funds.

## International Equity Mutual funds

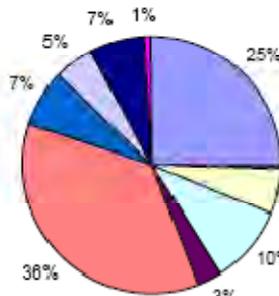
The median international equity fund declined 44.4% for the year. In 2008, funds invested in European stocks lost 47.8%, while Pacific region funds gave up 36.5%. Emerging markets funds underperformed developed markets funds, plummeting 54.6% in 2008.

## Management Summary Report

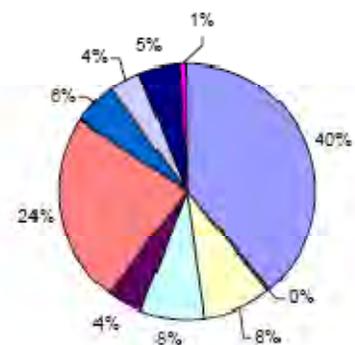
### Combined Plans

- Assets total approximately \$1.89 billion for all combined plans as of December 31, 2008. There was a decrease in allocation to equity funds to 39% and an increase in stable value to 39% by year end.
- The 401(a) Plan totaled \$113.0 million on December 31, 2008. The Maryland Investment Contract Pool was the most popular investment option in this Plan with 33.0% of Plans assets which increased 26.2% of assets last quarter, followed by Vanguard Institutional Index PI (11.3%) and Fidelity Puritan (8.5%).
- The 401(k) Plan totaled approximately \$761.0 million as of December 31, 2008. Similar to the 401(a) Plan, the three most popular funds were the Maryland Investment Contract Pool (35.8%), Vanguard Institutional Index PL (8.5%) and Fidelity Puritan (8.3%).
- At quarter end, the 403(b) Plan totaled \$49.5 million. Vanguard Prime Money Market was the most popular investment option in this Plan with 16.4% of Plan assets, followed by Fidelity Puritan (13.5%) and Goldman Sachs Large Cap Value Instl. (9.4%).
- Assets in the 457 Plan totaled \$986.9 million on December 31, 2008. The largest allocation was the Maryland Investment Contract Pool with 43.3% of Plan assets, followed by Nationwide Fixed Annuity (9.5%), and Fidelity Puritan (7.9%).

Prior Asset Allocation - December 31, 2007



Current Asset Allocation - December 31, 2008



## Fund Level Analysis

- **Maryland Investment Contract Pool (ICP):** As the largest investment option in the Supplemental Retirement Plans, this fixed income option had approximately \$728.9 million in assets on December 31, 2008 across three of the four plans. This option outperformed or matched its benchmarks over the trailing one-, three- and five-year periods measured as of December 31, 2008.
- **Nationwide Fixed Annuity:** Only an option in the 457 Plan, the Nationwide Fixed Annuity was valued just over \$92 million on December 31, 2008. This investment option underperformed for the quarter, one-year, and three-year period but outperformed versus its index for the annualized five-year period.
- **GW Daily Interest Guarantee, GW 36-Month CD, GW 60-Month CD, GW 84-Month CD:** These investment options are only offered in the 403(b) Plan. As of December 31, 2008, the 84-month CD had the largest allocation with \$3.4 million in assets. Each of the remaining GW options had approximately \$290,000 to \$470,000 in assets.
- **Vanguard Prime Money Market:** Also offered only in the 403(b) Plan, this investment option had approximately \$8.1 million invested on December 31, 2008. This fund outperformed the 91-Day T-bill for all trailing time periods measured as of the end of 2008.
- **PIMCO Total Return Fund:** Across the four plans, MSRP had approximately \$67.6 million invested in the PIMCO Total Return Fund. For the quarter, PIMCO outperformed its benchmark and ranked near the top decile of its peer group. Performance over the annualized one-year, three-year and five-year time periods remained strong as PIMCO ranked in or near the top decile versus its peers.
- **Fidelity Puritan:** A popular selection among plan participants with over \$155 million in assets, Fidelity Puritan underperformed its benchmark and ranked in the bottom half of the Mercer Mutual Fund US Balanced Universe for the year. Three and five year results were weak as the fund trailed the index and placed in the bottom half of the peer group.
- **T. Rowe Price Retirement Funds:** The T. Rowe Price lifecycle funds consists of 18 different funds, which vary in asset allocation based on their respective target retirement date. All funds invest in a diversified portfolio of underlying T. Rowe Price mutual funds. All of the funds underperformed their respective indices for the year as active managers struggled to keep pace with the indexes. Due to recent poor performance all funds are below their respective benchmarks for the annualized three-year and five-year periods.
- **Vanguard Institutional Index Plus:** MSRP participants had \$124.7 million invested in this fund. As in past years, this fund consistently tracked the S&P 500 Index in 2008.
- **Legg Mason Value Institutional:** Due to poor performance and outflows MSRP participants had a combined \$86.6 million invested in the fund at year end. Due to significant underperformance for the last four quarters, this fund trailed its benchmark and peer group median for all time periods measured as of December 31, 2008. This

fund has been on watch for performance reasons since the first quarter of 2008. During the fourth quarter, the Board decided to freeze this option to new investments and plans to terminate the fund and map assets in the second quarter of 2009.

- **Neuberger Berman Partners:** This fund, over all four plans, totaled \$64.6 million as of December 31, 2008. Over the year this fund placed in the bottom decile of its peer group and 15.0 percentage points below its benchmark. A significant overweight to the financial sector had a negative impact on relative performance in 2008.
- **Goldman Sachs Large Cap Value Fund:** This fund was added during the third quarter of 2007 and made up \$107.4 million of the assets in the Plans as of December 31, 2008. . During the year, the fund trailed its index by 20 basis points and placed in near the peer group median. For the three-year and five-year periods the fund outperformed its benchmark and placed in the top half of its peer group.
- **Vanguard Value Index Fund:** MSRP participants had \$3.4 million in this fund, which was added during the third quarter of 2007. This fund tracked its benchmark for all periods measured.
- **American Funds Growth Fund of America:** This fund had \$68.7 million invested across the four plans as of December 31, 2008. As the active large cap growth option, this fund trailed its benchmark for the year but outperformed its peers for the one-, three-, and five-year periods.
- **Dreyfus Mid Cap Index:** This fund did an adequate job of tracking the S&P 500 Index. While the gross expense ratio is higher than the average institutional expense ratio for similar funds, consideration of the 0.30% reimbursement to participant accounts via the Mutual Fund Savings Program provides a net expense ratio that is below the market average. MSRP participants have approximately \$71.1 million invested in this fund.
- **Lord Abbett Mid Cap Value:** This fund, which has \$25.2 million MSRP assets, trailed its benchmark and universe median for the one; three and five-year periods ended December 31, 2008. This fund was placed on the “watch list” in August 2005 and for most of 2007 it had exhibited short term improvement while at the same time meeting several of the contingencies outlined in the Investment Policy. Progress made in 2007 did not continue for most of 2008. Due to its recent struggles and the departure of key portfolio staff, the Board decided to replace this fund with the T. Rowe Price Mid Cap Value Fund.
- **Van Kampen Mid Cap Growth:** For 2008, the fund trailed its index and ranked in the bottom quartile of its peer group. Longer term results were stronger as the fund exceeded both measures for the five-year period. As of the end of the year, MSRP had \$9.0 million invested in this fund.
- **T. Rowe Price Small-Cap Stock:** For the year, the fund outperformed its index and placed in the top third of its peer group universe. The fund exceeded the universe median, but trailed its benchmark for the three-and five-year periods. This fund was put on watch in the first quarter of 2008 and will be monitored closely for continued improvement. As of the end of December, this fund had \$52.9 million in MSRP assets.

- **Vanguard Small Cap Value Index:** During all time periods measured, the fund tracked its index within 10 basis points. The passive style slightly underperformed the median actively managed fund in the one and three year periods but exceeded the median in the five year period ended December 31, 2008. MSRP had only \$3.9 million invested in this fund.
- **Vanguard Small Cap Growth Index:** For all time periods measured, the fund tracked its index within 20 basis points. This passive style generally outperformed the median fund in the small growth segment for all annualized periods measured. Currently, the fund has \$17.9 million in MSRP assets.
- **American Funds EuroPacific Growth:** The fund ranked in the top quartile of its peer group and outperformed both benchmarks for the year. Longer term performance was also strong. This actively managed fund has outperformed the index and ranked in the top quartile of its peer group for all periods measured. MSRP participants had \$91.8 million invested in this fund at year end.
- **Vanguard Total International Stock Index Fund:** Although designed to match the benchmark, this fund exceeded its benchmark for the trailing one-year period measured due to a pricing error that many managers perceived with the benchmark pricing. As a result, this fund exceeds its benchmark index for the one-year, three-year and five year periods. MSRP participants have \$6.7 million in this fund.

# INVESTMENT POLICY AND OBJECTIVES

## **I. Introduction**

The Board of Trustees of the Maryland Teachers' and State Employee's Supplemental Retirement Plans has adopted this Statement of Investment Policy for the Supplemental Retirement Plans.

The Plans are long-term retirement savings vehicles and are intended as sources of retirement income for eligible participants. The investment options available from the Plans cover a broad range of investment risk and rewards appropriate for this kind retirement savings program. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

This Statement of Investment Policy serves the following purposes:

- To ensure that a broad range of investment options are offered to participants of the plans;
- To establish an investment program that will allow participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plans;
- To establish investment objectives for each investment category offered within the Plans;
- To establish benchmarks and performance standards for each investment category and to evaluate each option's performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the various funds;
- To define the selection criteria for the Plans' investment options;
- To define the procedures for investment fund evaluation and formal fund review; and
- To set guidelines and procedures for withdrawal of an investment option which, in the Board's opinion, does not, or will not, fulfill the Plans' objectives for which it was selected and replace the option with an appropriate substitute.

The document is intended to be dynamic and is reviewed periodically and revised when appropriate.

## II. Investment Categories

The Plans have chosen to offer the following investment categories:

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### CATEGORY

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|                         |  |
|-------------------------|--|
| CONSERVATIVE:           | Money Market Funds<br>Fixed Investment Options<br>Bond Funds                     |
| MODERATE:               | Balanced Funds   |
| MODERATE TO AGGRESSIVE: | Lifecycle Funds  |
| AGGRESSIVE:             | Domestic Large Cap Funds   |
| MORE AGGRESSIVE:        | Domestic Mid Cap Funds<br>Domestic Small Cap funds<br>International Equity Funds |

Within each category of investment, the Board expects to offer between one and five individual investment options. The Board recognizes that within a category, the investment style (e.g. value, growth, and core) may differ between investment options.

The Plans' investment options can be placed in broadly defined investment categories (Conservative, Moderate, or Aggressive) depending on the type of option. The objective of each investment category is as follows:

- Aggressive: to seek significant capital appreciation over the long-term
- Moderate: to seek combination of long-term growth of capital and current income
- Conservative: to seek significant current income

Each investment option offered under the Plans shall:

- Operate in full accordance with its current published prospectus or "fact sheet"
- Have its performance results measured against the applicable performance standards described herein for that investment category.

If the Board determines an investment option no longer meets the performance criteria, it may replace that option with a suitable alternative pursuant to the investment fund evaluation procedure outlined herein. From time-to-time, the Board, in their discretion, may add investment options/categories to the current core options. At such time, the Statement of Investment Policy will be modified.

# Investment Performance

(total returns on a calendar year basis ended December 31, 2008)

Maryland Teachers & State Employees  
Supplemental Retirement Plans

As of December 31 2008

|  | End Balance   | 3 Months | 1 Year  | 3 Years | 5 Years | 10 Years |
|--|---------------|----------|---------|---------|---------|----------|
| <b>Stable Value</b>                            |               |          |         |         |         |          |
| Maryland Investment Contract Pool              | \$728,895,675 | 1.11%    | 4.66%   | 4.78%   | 4.55%   | NA       |
| Citigroup TBill + 100 bp Premium               |               | 0.50%    | 2.81%   | 4.79%   | 4.12%   | 4.33%    |
| iMoneyNet All Taxable+100bps                   |               | 0.62%    | 3.13%   | 4.73%   | 3.92%   | 4.05%    |
| Mercer Stable Value Median                     |               | 1.13%    | 4.52%   | 4.82%   | 4.65%   | 5.31%    |
| Mercer Stable Value Rank                       |               | 61       | 41      | 61      | 61      | NA       |
| <b>Money Market</b>                            |               |          |         |         |         |          |
| Vanguard Prime Money Market                    | \$8,125,558   | 0.68%    | 2.92%   | 4.36%   | 3.52%   | 3.65%    |
| Citigroup 3-Month T-Bill                       |               | 0.25%    | 1.80%   | 3.75%   | 3.10%   | 3.30%    |
| Mercer Mutual Fund US Fixed Ultra Short Median |               | -2.18%   | -2.11%  | 2.10%   | 2.10%   | 3.54%    |
| Mercer Mutual Fund US Fixed Ultra Short Rank   |               | 15       | 20      | 18      | 10      | 34       |
| <b>Domestic Fixed</b>                          |               |          |         |         |         |          |
| PIMCO Total Return Instl                       | \$67,553,596  | 4.97%    | 4.82%   | 5.94%   | 5.16%   | 6.23%    |
| Barclays Capital US Aggregate                  |               | 4.57%    | 5.24%   | 5.51%   | 4.65%   | 5.63%    |
| Mercer Mutual Fund US Fixed Core Median        |               | 0.84%    | -2.10%  | 2.54%   | 2.76%   | 4.43%    |
| Mercer Mutual Fund US Fixed Core Rank          |               | 11       | 13      | 5       | 1       | 2        |
| <b>Nationwide Fixed Annuity</b>                |               |          |         |         |         |          |
| Nationwide Fixed Annuity                       | \$92,123,170  | 1.11%    | 4.50%   | 4.61%   | 4.80%   | NA       |
| ML Treasury 1-3 Yr                             |               | 2.69%    | 6.61%   | 5.95%   | 4.06%   | 4.71%    |
| Mercer Mutual Fund US Fixed Short Median       |               | -0.47%   | -1.61%  | 2.70%   | 2.17%   | 3.63%    |
| Mercer Mutual Fund US Fixed Short Rank         |               | 31       | 5       | 8       | 0       | NA       |
| <b>Balanced</b>                                |               |          |         |         |         |          |
| Fidelity Puritan                               | \$155,827,435 | -15.49%  | -29.16% | -4.78%  | -0.25%  | 2.00%    |
| S&P 500 60% / 40% BC Aggregate                 |               | -11.86%  | -22.06% | -2.75%  | 0.71%   | 1.68%    |
| Mercer Mutual Fund US Balanced Median          |               | -13.40%  | -25.25% | -4.01%  | 0.20%   | 1.85%    |
| Mercer Mutual Fund US Balanced Rank            |               | 68       | 74      | 63      | 61      | 47       |
| <b>Lifecycle</b>                               |               |          |         |         |         |          |
| T. Rowe Price Retirement 2005                  | \$2,994,407   | -12.01%  | -22.24% | -2.57%  | NA      | NA       |
| T. Rowe Price Retirement 2005 Index            |               | -9.76%   | -19.11% | -1.31%  | NA      | NA       |
| <b>T. Rowe Price Retirement 2010</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2010                  | \$11,486,674  | -14.78%  | -26.72% | -4.10%  | 0.81%   | NA       |
| T. Rowe Price Retirement 2010 Index            |               | -12.14%  | -23.19% | -2.63%  | 1.49%   | NA       |
| <b>T. Rowe Price Retirement 2015</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2015                  | \$15,929,290  | -17.19%  | -30.22% | -5.39%  | NA      | NA       |
| T. Rowe Price Retirement 2015 Index            |               | -14.28%  | -26.60% | -3.82%  | NA      | NA       |
| <b>T. Rowe Price Retirement 2020</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2020                  | \$17,401,249  | -19.28%  | -33.48% | -6.62%  | -0.32%  | NA       |
| T. Rowe Price Retirement 2020 Index            |               | -16.30%  | -29.72% | -4.95%  | 0.38%   | NA       |
| <b>T. Rowe Price Retirement 2025</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2025                  | \$11,373,148  | -20.89%  | -35.91% | -7.55%  | NA      | NA       |
| T. Rowe Price Retirement 2025 Index            |               | -17.93%  | -32.26% | -5.88%  | NA      | NA       |
| <b>T. Rowe Price Retirement 2030</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2030                  | \$9,202,659   | -22.19%  | -37.80% | -8.28%  | -0.97%  | NA       |
| T. Rowe Price Retirement 2030 Index            |               | -19.22%  | -34.16% | -6.53%  | -0.24%  | NA       |
| <b>T. Rowe Price Retirement 2035</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2035                  | \$4,783,742   | -22.96%  | -38.88% | -8.80%  | NA      | NA       |
| T. Rowe Price Retirement 2035 Index            |               | -20.11%  | -35.36% | -7.08%  | NA      | NA       |
| <b>T. Rowe Price Retirement 2040</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2040                  | \$3,544,004   | -22.95%  | -38.85% | -8.78%  | -1.31%  | NA       |
| T. Rowe Price Retirement 2040 Index            |               | -20.11%  | -35.36% | -7.08%  | -0.58%  | NA       |
| <b>T. Rowe Price Retirement 2045</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2045                  | \$1,443,220   | -22.98%  | -38.83% | -8.78%  | NA      | NA       |
| T. Rowe Price Retirement 2045 Index            |               | -20.11%  | -35.36% | -7.08%  | NA      | NA       |
| <b>T. Rowe Price Retirement 2050</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2050                  | \$591,752     | -22.91%  | -38.80% | NA      | NA      | NA       |
| T. Rowe Price Retirement 2050 Index            |               | -20.11%  | -35.36% | NA      | NA      | NA       |
| <b>T. Rowe Price Retirement 2055</b>           |               |          |         |         |         |          |
| T. Rowe Price Retirement 2055                  | \$352,293     | -23.02%  | -38.88% | NA      | NA      | NA       |
| T. Rowe Price Retirement 2055 Index            |               | -20.11%  | -35.36% | NA      | NA      | NA       |
| <b>T. Rowe Price Retirement Income</b>         |               |          |         |         |         |          |
| T. Rowe Price Retirement Income                | \$1,698,252   | -10.00%  | -18.39% | -1.63%  | 1.45%   | NA       |
| T. Rowe Price Retirement Income Index          |               | -7.95%   | -15.45% | -0.49%  | 2.02%   | NA       |

|  | End Balance   | 3 Months | 1 Year  | 3 Years | 5 Years | 10 Years |
|--|---------------|----------|---------|---------|---------|----------|
| <b>Domestic Equity</b>                               |               |          |         |         |         |          |
| Vanguard Institutional Index Instl PI                | \$124,657,449 | -21.90%  | -36.94% | -8.32%  | -2.16%  | -1.32%   |
| S&P 500  |               | -21.94%  | -37.00% | -8.36%  | -2.19%  | -1.38%   |
| Vanguard Value Index                                 | \$3,351,214   | -20.44%  | -35.97% | -7.84%  | -0.69%  | 0.62%    |
| Vanguard Spliced Value Index                         |               | -20.48%  | -35.99% | -7.76%  | -0.57%  | 0.72%    |
| Goldman Sachs Large Cap Value Inst                   | \$107,442,333 | -21.66%  | -37.00% | -8.02%  | -0.26%  | NA       |
| Russell 1000 Value                                   |               | -22.18%  | -36.85% | -8.32%  | -0.79%  | 1.36%    |
| Mercer Mutual Fund US Equity Large Cap Value Median  |               | -21.36%  | -36.34% | -8.42%  | -1.41%  | 1.08%    |
| Mercer Mutual Fund US Equity Large Cap Value Rank    |               | 54       | 58      | 43      | 28      | NA       |
| Legg Mason Value Instl                               | \$86,602,179  | -28.83%  | -54.60% | -22.94% | -11.25% | -3.25%   |
| S&P 500  |               | -21.94%  | -37.00% | -8.36%  | -2.19%  | -1.38%   |
| Mercer Mutual Fund US Equity Large Cap Core Median   |               | -22.03%  | -37.35% | -8.76%  | -2.04%  | -0.69%   |
| Mercer Mutual Fund US Equity Large Cap Core Rank     |               | 95       | 99      | 99      | 99      | 91       |
| Neuberger Berman Partners Inst                       | \$64,589,090  | -32.75%  | -51.88% | NA      | NA      | NA       |
| S&P 500  |               | -21.94%  | -37.00% | -8.36%  | -2.19%  | -1.38%   |
| Mercer Mutual Fund US Equity Large Cap Core Median   |               | -22.03%  | -37.35% | -8.76%  | -2.04%  | -0.69%   |
| Mercer Mutual Fund US Equity Large Cap Core Rank     |               | 98       | 98      | NA      | NA      | NA       |
| American Funds Growth Fund of Amer A                 | \$68,712,343  | -23.11%  | -39.06% | -9.14%  | -0.83%  | 3.17%    |
| Russell 1000 Growth                                  |               | -22.79%  | -38.44% | -9.11%  | -3.42%  | -4.27%   |
| Mercer Mutual Fund US Equity Large Cap Growth Median |               | -23.13%  | -40.45% | -9.95%  | -3.22%  | -2.07%   |
| Mercer Mutual Fund US Equity Large Cap Growth Rank   |               | 49       | 39      | 40      | 15      | 4        |
| Dreyfus MidCap Index                                 | \$71,119,080  | -25.61%  | -36.45% | -9.10%  | -0.49%  | 3.96%    |
| S&P 400 MidCap                                       |               | -25.55%  | -36.23% | -8.76%  | -0.08%  | 4.46%    |
| Lord Abbett Mid-Cap Value A                          | \$25,180,638  | -21.13%  | -39.44% | -11.89% | -1.70%  | 5.97%    |
| Russell Midcap Value                                 |               | -27.19%  | -38.44% | -9.98%  | 0.33%   | 4.44%    |
| Mercer Mutual Fund US Equity Mid Cap Value Median    |               | -23.38%  | -35.90% | -8.95%  | -0.04%  | 5.18%    |
| Mercer Mutual Fund US Equity Mid Cap Value Rank      |               | 30       | 74      | 85      | 75      | 36       |
| T. Rowe Price Mid-Cap Value                          | \$0           | -23.75%  | -34.58% | -7.50%  | 0.56%   | 6.76%    |
| Russell Midcap Value                                 |               | -27.19%  | -38.44% | -9.98%  | 0.33%   | 4.44%    |
| Mercer Mutual Fund US Equity Mid Cap Value Median    |               | -23.38%  | -35.90% | -8.95%  | -0.04%  | 5.18%    |
| Mercer Mutual Fund US Equity Mid Cap Value Rank      |               | 60       | 36      | 26      | 37      | 26       |
| Van Kampen Mid Cap Growth A                          | \$9,090,799   | -27.57%  | -48.39% | -11.70% | -0.41%  | 1.53%    |
| Russell Midcap Growth                                |               | -27.36%  | -44.33% | -11.79% | -2.33%  | -0.19%   |
| Mercer Mutual Fund US Equity Mid Cap Growth Median   |               | -26.11%  | -43.56% | -10.22% | -1.66%  | 1.31%    |
| Mercer Mutual Fund US Equity Mid Cap Growth Rank     |               | 70       | 82      | 69      | 29      | 48       |
| Vanguard Small Cap Growth Index Instl                | \$17,927,943  | -27.92%  | -39.92% | -9.57%  | -1.32%  | NA       |
| Vanguard Spliced Small Cap Growth Index              |               | -28.00%  | -40.10% | -9.70%  | -1.45%  | 2.96%    |
| Vanguard Small Cap Value Index                       | \$3,867,619   | -25.57%  | -32.06% | -9.03%  | -0.27%  | 5.22%    |
| Vanguard Spliced Small Cap Value Index               |               | -25.56%  | -32.12% | -8.96%  | -0.16%  | 4.94%    |
| T. Rowe Price Small-Cap Stock                        | \$52,887,199  | -23.83%  | -33.36% | -9.61%  | -0.99%  | 4.42%    |
| Russell 2000   |               | -26.12%  | -33.79% | -8.29%  | -0.93%  | 3.02%    |
| Mercer Mutual Fund US Equity Small Cap Core Median   |               | -26.12%  | -36.22% | -10.27% | -1.42%  | 4.93%    |
| Mercer Mutual Fund US Equity Small Cap Core Rank     |               | 20       | 30      | 45      | 43      | 60       |
| <b>International Equity</b>                          |               |          |         |         |         |          |
| American Funds EuroPacific Gr A                      | \$91,812,938  | -19.28%  | -40.52% | -4.82%  | 4.57%   | 4.98%    |
| MSCI EAFE  |               | -19.90%  | -43.06% | -6.92%  | 2.10%   | 1.18%    |
| MSCI AC Wld ex US                                    |               | -22.29%  | -45.24% | -6.57%  | 3.00%   | 2.27%    |
| Mercer Mutual Fund Intl Equity Median                |               | -21.40%  | -44.38% | -7.66%  | 1.82%   | 2.34%    |
| Mercer Mutual Fund Intl Equity Rank                  |               | 27       | 18      | 18      | 14      | 24       |
| Vanguard Total Intl Stock Index                      | \$6,660,331   | -21.03%  | -44.11% | -6.49%  | 2.69%   | 1.76%    |
| Vanguard Total International Composite Index         |               | -21.48%  | -45.51% | -7.13%  | 2.26%   | NA       |

# *INVESTMENT EXPENSES*

All investments except for the Investment Contract Pool (ICP) are mutual fund investments. The ICP represents approximately 39% of the assets in the 457, 401(K) and 401(a) Plans<sup>1</sup>. The following represents the investment costs associated with the Investment Contract Pool. These fund management and custody costs are deducted from cash flow or the interest earned on the underlying investment.

Investment Contract Pool – weighted average fees for 2008 0.32%

The MSRP Board of Trustees has developed an original and effective Reimbursement Program for their supplemental retirement plan participants. The MSRP Mutual Fund Reimbursement Program is designed to refund participants part of the annual operating expenses (“expense ratio”) of certain mutual funds. Mutual fund operating expenses are disclosed in each fund prospectus. Those expenses are deducted by the mutual fund manager before stating gains/losses or the daily net asset value (NAV). This MSRP Mutual Fund Reimbursement Program is not typically offered by other retirement savings or investment programs.

At the Board’s direction, reimbursements are used to buy additional shares in the applicable fund on a regular basis. These shares are then distributed to participants’ accounts on a quarterly schedule. In 2008, the mutual funds in the MSRP Mutual Fund Reimbursement Program refunded nearly \$2.4 million back to participant accounts, over \$21.5 million has been returned to MSRP participants since 1995, when the MSRP Mutual Fund Reimbursement Program began. State participants can look for reimbursements on their quarterly account statement under the heading “Mutual Fund Savings”.

The MSRP Mutual Fund Reimbursement Program is part of the continuous effort by the Board of Trustees to make the Maryland Supplemental Retirement Plans affordable and viable for all Maryland State Employees.

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<sup>1</sup> Not available in the 403(b) Plan

## Schedule of investment expenses

(for the year ended December 31, 2008)

The following schedules represent the fund expenses by mutual fund as of December 30, 2008. These expenses are netted against the realized and unrealized gains (losses) and reported as part of the investment valuation process. Also listed are Mutual Fund Reimbursements for certain funds that return part of their operating expenses to the MSRP Board of Trustees.

### Traditional Spectrum of Funds

| Mutual Fund Name                                     | Ticker Symbol | Expense Ratio | Mutual Fund Reimbursement |
|--|---------------|---------------|---------------------------|
| Fidelity Puritan Fund                                | FPURX         | 0.60%         | 0.25%                     |
| Legg Mason Value Trust – Institutional Class         | LMNVX         | 0.69%         | Average 0.06%             |
| Neuberger Berman Partners Fund – Inst'l Class        | NBPIX         | 0.66%         | 0.10%                     |
| Vanguard Institutional Index Fund – Inst'l Plus      | VIIIX         | 0.025%        | none                      |
| Growth Fund of America – Class A                     | AGTHX         | 0.64%         | 0.25%                     |
| Goldman Sachs Large Cap Value Fund – Inst'l Class    | GSLIX         | 0.79%         | 0.15%                     |
| Vanguard Value Index Fund – Investor Class           | VIVAX         | 0.20%         | none                      |
| Dreyfus Midcap Index Fund                            | PESPX         | 0.50%         | 0.30%                     |
| Van Kampen MidCap Growth Fund – Class A              | VGRAX         | 1.21%         | 0.40%                     |
| Lord Abbett Mid-Cap Value Fund – Class A             | LAVLX         | 1.10%         | 0.40%                     |
| Vanguard Small-Cap Growth Index Fund – Inst'l Shares | VSGIX         | 0.07%         | none                      |
| T. Rowe Price Small Cap Stock Fund                   | OTCFX         | 0.89%         | 0.10%                     |
| Vanguard Small-Cap Value Index Fund – Inv Shares     | VISVX         | 0.22%         | none                      |
| EuroPacific Growth Fund – Class A                    | AEPGX         | 0.79%         | 0.25%                     |
| Vanguard Total International Stock Index Fund        | VGTSX         | 0.27%         | none                      |
| PIMCO Total Return Fund – Institutional Class        | PTTRX         | 0.52%         | none                      |
| Vanguard Prime Money Market Fd - Inst'l Class*       | VMRXX         | 0.08%         | none                      |

### Targeted Retirement Funds

| Mutual Fund Name                    | Ticker Symbol | Expense Ratio | Mutual Fund Savings Agreement |
|-------------------------------------|---------------|---------------|-------------------------------|
| T.Rowe Price Retirement Income Fund | TRRIX         | 0.55%         | 0.10%                         |
| T.Rowe Price 2005 Retirement Fund   | TRRFX         | 0.58%         |                               |
| T.Rowe Price 2010 Retirement Fund   | TRRAX         | 0.61%         |                               |
| T.Rowe Price 2015 Retirement Fund   | TRRGX         | 0.65%         |                               |
| T.Rowe Price 2020 Retirement Fund   | TRRBX         | 0.68%         |                               |
| T.Rowe Price 2025 Retirement Fund   | TRRHX         | 0.70%         |                               |
| T.Rowe Price 2030 Retirement Fund   | TRRCX         | 0.72%         |                               |
| T.Rowe Price 2035 Retirement Fund   | TRRJX         | 0.73%         |                               |
| T.Rowe Price 2040 Retirement Fund   | TRRDY         | 0.73%         |                               |
| T.Rowe Price 2045 Retirement Fund   | TRRKX         | 0.73%         |                               |
| T.Rowe Price 2050 Retirement Fund   | TRRMX         | 0.73%         |                               |
| T.Rowe Price 2055 Retirement Fund   | TRRNX         | 0.73%         |                               |

\*only for the 403(b) Plan; Not available in the 457, 401(k) and 401(a) Plans

# Maryland Supplemental Retirement Plans

## STATISTICAL SECTION

# ***STATISTICAL SECTION INTRODUCTION***

**The Maryland Teachers and State Employees Plans (MSRP)** has elected to present Economic Condition Reporting: The Statistical Section. The purpose of this statement is to provide historical perspective, content and detail to assist readers in using the information within the financial statements and the notes to the financial statements to better understand the Plans overall economic condition.

The financial trend schedules presented are:

- Changes in Net Assets by Plan
- Schedule of Participant contributions and Distributions
- Schedule of Participant History by Plan

## TEN-YEAR HISTORY OF CHANGES IN NET ASSETS BY PLAN

| 457  | 2008             | 2007           | 2006           | 2005           | 2004           | 2003           | 2002             | 2001            | 2000            | 1999           |
|--|------------------|----------------|----------------|----------------|----------------|----------------|------------------|-----------------|-----------------|----------------|
| <b>ADDITIONS</b>   |                  |                |                |                |                |                |                  |                 |                 |                |
| Employee Contributions                                   | \$ 68,108,751    | \$ 66,712,955  | \$ 65,689,386  | \$ 57,805,559  | \$ 55,252,547  | \$ 53,138,993  | 45,324,247       | 33,658,564      | 26,651,811      | 33,950,589     |
| Net Investment Income                                    | \$ (260,016,053) | 67,691,161     | 112,440,453    | 63,843,266     | 89,897,596     | 153,033,770    | (79,044,181)     | (44,561,361)    | (26,541,693)    | 125,158,206    |
| Total Additions  | \$ (191,907,302) | \$ 134,404,116 | \$ 178,129,839 | \$ 121,648,825 | \$ 145,150,143 | \$ 206,172,763 | \$ (33,719,934)  | \$ (10,902,797) | \$ 110,118      | \$ 159,108,795 |
| <b>DEDUCTIONS</b>  |                  |                |                |                |                |                |                  |                 |                 |                |
| Distributions to participants                            | \$ 97,490,302    | \$ 96,221,412  | \$ 86,526,003  | \$ 75,307,660  | \$ 76,922,437  | \$ 65,777,380  | \$ 87,450,755    | \$ 48,375,038   | \$ 48,687,734   | \$ 43,369,354  |
| Administrative Expenses                                  | \$ 1,272,972     | \$ 3,577,699   | \$ 3,437,543   | \$ 3,331,462   | \$ 2,609,053   | \$ 2,892,684   | \$ 3,486,198     | \$ 3,525,628    | \$ 3,067,283    | \$ 2,901,602   |
| Life Insurance premiums - Net of Cash<br>surrender Value | \$ (465,585)     | \$ 162,604     | \$ 125,259     | \$ 181,705     | \$ 272,195     | \$ 26,230      | \$ 15,871        | \$ 3,310        | \$ 149,510      | \$ 150,782     |
| Total deductions   | \$ 98,297,689    | \$ 99,961,715  | \$ 90,088,805  | \$ 78,820,827  | \$ 79,803,685  | \$ 68,696,294  | \$ 90,952,824    | \$ 51,903,976   | \$ 51,904,527   | \$ 46,421,738  |
| <b>NET CHANGE IN NET ASSETS</b>                          | \$ (290,204,991) | \$ 34,442,401  | \$ 88,041,034  | \$ 42,827,998  | \$ 65,346,458  | \$ 137,476,469 | \$ (124,672,758) | \$ (62,806,773) | \$ (51,794,409) | \$ 112,687,057 |

| 401(k)                          | 2008             | 2007          | 2006           | 2005          | 2004           | 2003           | 2002           | 2001          | 2000          | 1999          |
|---------------------------------|------------------|---------------|----------------|---------------|----------------|----------------|----------------|---------------|---------------|---------------|
| <b>ADDITIONS</b>                |                  |               |                |               |                |                |                |               |               |               |
| Employee Contributions          | \$ 95,898,797    | \$ 94,729,303 | \$ 88,740,454  | \$ 86,342,964 | \$ 84,646,299  | \$ 85,530,045  | 79,159,908     | 74,233,545    | 67,440,557    | 54,121,348    |
| Net Investment Income           | \$ (284,616,917) | \$ 50,102,369 | \$ 88,277,562  | \$ 46,054,079 | \$ 61,892,792  | \$ 103,596,158 | (60,179,336)   | (33,264,990)  | (12,509,230)  | 47,633,138    |
| Total Additions                 | (188,718,120)    | 144,831,672   | 177,018,016    | 132,397,043   | 146,539,091    | 189,126,203    | 18,980,572     | 40,968,555    | 54,931,327    | 101,754,486   |
| <b>DEDUCTIONS</b>               |                  |               |                |               |                |                |                |               |               |               |
| Distributions to participants   | \$ 62,995,066    | \$ 56,946,200 | \$ 47,009,239  | \$ 37,809,148 | \$ 29,311,067  | \$ 27,629,302  | \$ 20,090,766  | \$ 19,628,234 | \$ 21,283,846 | \$ 18,905,216 |
| Administrative Expenses         | \$ 1,978,213     | \$ 2,836,711  | \$ 2,426,168   | \$ 2,242,160  | \$ 2,172,564   | \$ 1,873,474   | \$ 1,532,256   | \$ 1,080,472  | \$ 517,740    | \$ 733,643    |
| Total deductions                | \$ 64,973,279    | \$ 59,782,911 | \$ 49,435,407  | \$ 40,051,308 | \$ 31,483,631  | \$ 29,502,776  | \$ 21,623,022  | \$ 20,708,706 | \$ 21,801,586 | \$ 19,638,859 |
| <b>NET CHANGE IN NET ASSETS</b> | \$ (253,691,399) | \$ 85,048,761 | \$ 127,582,609 | \$ 92,345,735 | \$ 115,055,460 | \$ 159,623,427 | \$ (2,642,450) | \$ 20,259,849 | \$ 33,129,741 | \$ 82,115,627 |

## TEN-YEAR HISTORY OF CHANGES IN NET ASSETS BY PLAN

| 403(b)                            | 2008             | 2007           | 2006           | 2005           | 2004           | 2003           | 2002             | 2001            | 2000           | 1999           |
|-----------------------------------|------------------|----------------|----------------|----------------|----------------|----------------|------------------|-----------------|----------------|----------------|
| <b>ADDITIONS</b>                  |                  |                |                |                |                |                |                  |                 |                |                |
| Employee Contributions            | \$ 3,041,867     | \$ 2,791,581   | \$ 2,771,994   | \$ 2,895,313   | \$ 2,637,312   | \$ 2,661,956   | \$ 3,120,051     | \$ 2,859,098    | \$ 2,877,189   | \$ 2,821,354   |
| Net Investment Income             | \$ (23,380,777)  | \$ 4,223,649   | \$ 7,952,482   | \$ 4,174,477   | \$ 6,359,796   | \$ 12,375,662  | \$ (8,952,248)   | \$ (6,013,092)  | \$ (1,859,427) | \$ 10,185,951  |
| Total Additions                   | \$ (20,338,910)  | \$ 7,015,230   | \$ 10,724,476  | \$ 7,069,790   | \$ 8,997,108   | \$ 15,037,618  | \$ (5,832,197)   | \$ (3,153,994)  | \$ 1,017,762   | \$ 13,007,305  |
| <b>DEDUCTIONS</b>                 |                  |                |                |                |                |                |                  |                 |                |                |
| Distributions to participants     | \$ 4,274,796     | \$ 6,973,190   | \$ 5,286,574   | \$ 4,848,153   | \$ 4,416,482   | \$ 3,513,266   | \$ 4,237,404     | \$ 2,741,175    | \$ 4,565,496   | \$ 3,204,773   |
| Administrative Expenses           | \$ 136,773       | \$ 215,582     | \$ 203,564     | \$ 208,233     | \$ 219,399     | \$ 199,478     | \$ 204,470       | \$ 219,731      | \$ 192,917     | \$ 225,360     |
| Total deductions                  | \$ 4,411,569     | \$ 7,188,772   | \$ 5,490,138   | \$ 5,056,386   | \$ 4,635,881   | \$ 3,712,744   | \$ 4,441,874     | \$ 2,960,906    | \$ 4,758,413   | \$ 3,430,133   |
| <b>NET CHANGE IN NET ASSETS</b>   | \$ (24,750,479)  | \$ (173,542)   | \$ 5,234,338   | \$ 2,013,404   | \$ 4,361,227   | \$ 11,324,874  | \$ (10,274,071)  | \$ (6,114,900)  | \$ (3,740,651) | \$ 9,577,172   |
| <b>401 (a)</b>                    |                  |                |                |                |                |                |                  |                 |                |                |
| <b>ADDITIONS</b>                  |                  |                |                |                |                |                |                  |                 |                |                |
| Net Investment Income             | \$ (45,402,727)  | \$ 5,899,490   | \$ 11,609,187  | \$ 918,511     | \$ 7,492,132   | \$ 14,916,075  | \$ 638,593       | \$ (2,440,463)  | \$ (1,015,131) | \$ 1,216,600   |
| Employer/Employee Contributions   | \$ 20,839,626    | \$ 20,722,388  | \$ 17,986,400  | \$ 11,891,617  | \$ 19,092      | \$ 2,486,316   | \$ 10,276,727    | \$ 20,570,151   | \$ 19,916,744  | \$ 14,546,456  |
| Total Assets                      | \$ (24,563,101)  | \$ 26,621,878  | \$ 29,595,587  | \$ 12,810,128  | \$ 7,511,224   | \$ 17,402,391  | \$ 10,915,320    | \$ 18,129,688   | \$ 18,901,613  | \$ 15,763,056  |
| <b>DEDUCTIONS</b>                 |                  |                |                |                |                |                |                  |                 |                |                |
| Distributions to participants     | \$ 4,860,035     | \$ 4,754,283   | \$ 3,643,693   | \$ 2,809,622   | \$ 2,206,489   | \$ 1,786,887   | \$ 1,047,982     | \$ 722,999      | \$ 271,514     | \$ 20,821      |
| Administrative expenses           | \$ 268,020       | \$ 370,113     | \$ 289,206     | \$ 253,155     | \$ 262,268     | \$ 229,989     | \$ 184,949       | \$ 129,876      | \$ 77,994      | \$ 10,744      |
| Total Deductions                  | \$ 5,128,055     | \$ 5,124,396   | \$ 3,932,899   | \$ 3,062,777   | \$ 2,468,757   | \$ 2,016,876   | \$ 1,232,931     | \$ 852,875      | \$ 349,508     | \$ 31,565      |
| <b>NET CHANGE IN NET ASSETS</b>   | \$ (29,691,156)  | \$ 21,497,482  | \$ 25,662,688  | \$ 9,747,351   | \$ 5,042,467   | \$ 15,385,515  | \$ 9,682,389     | \$ 17,276,813   | \$ 18,552,105  | \$ 15,731,491  |
| <b>TOTAL CHANGE IN NET ASSETS</b> | \$ (598,338,025) | \$ 140,815,102 | \$ 246,520,669 | \$ 146,934,488 | \$ 189,805,612 | \$ 323,810,285 | \$ (127,906,890) | \$ (31,385,011) | \$ (3,853,214) | \$ 220,111,347 |

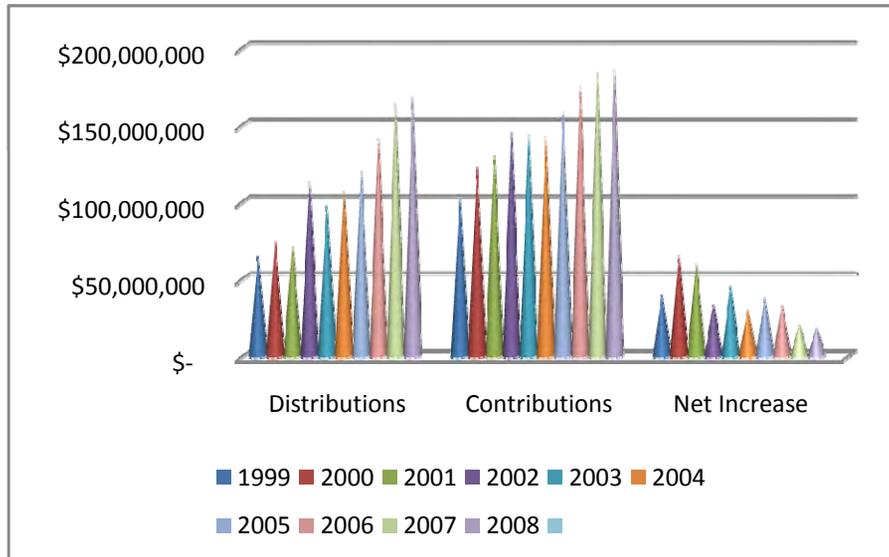
## ***10-YEAR HISTORY OF PLAN PARTICIPANTS***

| <b>457 Plan</b>        | <b>2008</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> | <b>1999</b> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Participant Accounts   | 61,264      | 60,435      | 57,634      | 56,646      | 55,533      | 56,747      | 56,991      | 55,641      | 55,170      | 54,387      |
| Deferring Participants | 36,832      | 36,225      | 34,702      | 32,945      | 30,742      | 32,632      | 31,121      | 28,615      | 28,102      | 29,670      |
| <b>403-B Plan</b>      |             |             |             |             |             |             |             |             |             |             |
| Participant Accounts   | 1,938       | 1,844       | 1,900       | 1,991       | 2,062       | 2,521       | 2,665       | 2,700       | 2,728       | 2,703       |
| Deferring Participants | 839         | 721         | 714         | 751         | 805         | 909         | 984         | 1,068       | 1,084       | 1,127       |
| <b>401-K Plan</b>      |             |             |             |             |             |             |             |             |             |             |
| Participant Accounts   | 74,825      | 74,402      | 73,079      | 71,510      | 71,014      | 72,953      | 73,632      | 70,771      | 64,287      | 52,749      |
| Deferring Participants | 52,200      | 52,766      | 52,431      | 51,575      | 53,071      | 57,369      | 59,096      | 58,617      | 53,158      | 43,806      |
| <b>401-A Plan*</b>     |             |             |             |             |             |             |             |             |             |             |
| Participant Accounts   | 44,705      | 44,119      | 42,596      | 41,746      | 37,452      | 38,525      | 38,720      | 38,010      | 36,560      | 34,500      |

\*Estimated Participant Accounts for the years 1999-2002

# ***TEN-YEAR HISTORY OF CONTRIBUTIONS AND DISTRIBUTIONS FOR ALL PLANS***

|      | Distributions  |    | Contributions |    | Net Increase |
|------|----------------|----|---------------|----|--------------|
| 1999 | \$ 65,500,164  | \$ | 105,439,747   | \$ | 39,939,583   |
| 2000 | \$ 74,808,590  | \$ | 124,101,913   | \$ | 67,016,743   |
| 2001 | \$ 71,467,446  | \$ | 131,321,358   | \$ | 59,853,912   |
| 2002 | \$ 112,826,907 | \$ | 145,988,581   | \$ | 33,161,674   |
| 2003 | \$ 98,706,835  | \$ | 143,817,310   | \$ | 45,110,475   |
| 2004 | \$ 112,856,475 | \$ | 142,555,250   | \$ | 29,698,775   |
| 2005 | \$ 120,774,583 | \$ | 158,935,453   | \$ | 38,160,870   |
| 2006 | \$ 142,465,509 | \$ | 175,188,234   | \$ | 32,722,725   |
| 2007 | \$ 164,895,085 | \$ | 184,956,227   | \$ | 20,061,142   |
| 2008 | \$ 169,620,199 | \$ | 187,889,041   | \$ | 18,268,842   |



# 2008 PLAN STATISTICS

## 2008 TOTALS FOR ALL PLANS

|   |          |
|---|----------|
| Participants in Multiple Plans              | 7,547    |
| TOTAL Participants                          | 69,070   |
| Average Combined Plan Assets by Participant | \$30,824 |
| Participants with Multiplan Deferrals       | 3,145    |
| TOTAL Deferring Participants                | 44,816   |
| Average Annual Deferrals per Participant    | \$4,192  |
| Participants with Multiplan Payouts         | 179      |
| TOTAL Participants with Systematic Payouts  | 2,943    |

## 457(b) DEFERRED COMPENSATION PLAN

|                        | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------------|-------------|-------------|-------------|
| Participants           | 30,715      | 30,411      | 29,487      |
| Net New Enrollments    | 304         | -547        | 873         |
| Deferring Participants | 18,457      | 18,243      | 17,444      |
| Annuitants             | 1           | 603         | 648         |
| Systematic Payouts     | 2,716       | 2,580       | 2,163       |

## 401(k) SAVINGS & INVESTMENT PLAN

|                        | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------------|-------------|-------------|-------------|
| Participants           | 37,375      | 37,366      | 36,709      |
| Net New Enrollments    | 8           | 657         | 562         |
| Deferring Participants | 25,930      | 26,375      | 26,220      |
| Annuitants             | 3           | 4           | 2           |
| Systematic Payouts     | 831         | 649         | 582         |

## 403(b) TAX DEFERRED ANNUITY PLAN

|                        | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------------|-------------|-------------|-------------|
| Participants           | 980         | 926         | 938         |
| Net New Enrollments    | 54          | -44         | -12         |
| Deferring Participants | 429         | 368         | 348         |
| Annuitants             | 0           | 3           | 3           |
| Systematic Payouts     | 80          | 66          | 35          |

## 401(a) MATCH PLAN

|              | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--------------|-------------|-------------|-------------|
| Participants | 44,705      | 44,119      | 42,596      |

**457(b) PLAN SUMMARY**

|                         | <u>2008</u>     | <u>2007</u>     | <u>2006</u>     | <u>2005</u>     | <u>2004</u>     | <u>2003</u>     |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Participant Accounts    | 30,715          | 30,411          | 29,487          | 28,614          | 27,777          | 28,294          |
| Deferring Participants  | 18,457          | 18,243          | 17,444          | 16,701          | 16,314          | 16,461          |
| Total Net Assets        | \$1,003,253,263 | \$1,293,458,255 | \$1,259,015,854 | \$1,170,974,820 | \$1,128,146,822 | \$1,062,800,364 |
| Contributions           | \$68,108,751    | \$66,712,955    | \$65,689,386    | \$57,805,559    | \$55,252,547    | \$53,138,993    |
| Investment Return       | (\$261,087,114) | \$66,180,893    | \$111,222,386   | \$62,425,619    | \$88,629,416    | \$152,088,972   |
| Withdrawals Mutual Fund | (\$97,490,302)  | (\$96,221,412)  | (\$86,526,003)  | (\$75,307,660)  | (\$76,922,437)  | (\$65,777,380)  |
| Reimbursements Plan     | \$1,071,061     | \$1,510,268     | \$1,218,067     | \$1,320,784     | \$1,093,117     | \$1,031,594     |
| Administration Fees*    | (\$1,272,972)   | (\$3,577,699)   | (\$3,437,543)   | (\$3,331,462)   | (\$2,609,053)   | (\$2,892,684)   |
| Number of Loans         | 995             | 1,109           | 800             | 969             | 756             | 302             |
| Loan Amount             | \$ 8,015,882    | \$9,006,867     | \$7,704,419     | \$6,507,222     | \$5,135,942     | \$2,284,823     |

**401(k) PLAN SUMMARY**

|                         | <u>2008</u>     | <u>2007</u>     | <u>2006</u>    | <u>2005</u>    | <u>2004</u>    | <u>2003</u>    |
|-------------------------|-----------------|-----------------|----------------|----------------|----------------|----------------|
| Participant Accounts    | 37,375          | 37,366          | 36,709         | 36,147         | 35,400         | 35,867         |
| Deferring Participants  | 25,930          | 26,375          | 26,220         | 26,006         | 25,680         | 28,422         |
| Total Net Assets        | \$760,995,733   | \$1,014,687,132 | \$929,638,371  | \$802,055,762  | \$709,710,027  | \$594,654,567  |
| Contributions           | \$95,898,797    | \$94,729,303    | \$88,740,454   | \$86,342,964   | \$84,646,299   | \$85,530,045   |
| Investment Return       | (\$285,649,155) | \$48,776,621    | \$87,263,402   | \$45,139,069   | \$61,227,785   | \$102,909,184  |
| Withdrawals Mutual Fund | (\$62,995,066)  | (\$56,946,200)  | (\$47,009,239) | (\$37,809,148) | (\$29,311,067) | (\$27,629,302) |
| Reimbursements Plan     | \$1,032,238     | \$1,325,748     | \$1,014,160    | \$915,010      | \$665,007      | \$686,974      |
| Administration Fees*    | (\$1,978,213)   | (\$2,836,711)   | (\$2,426,168)  | (\$2,242,160)  | (\$2,172,564)  | (\$1,873,474)  |
| Number of Loans         | 1,425           | 1,546           | 1,236          | 1,442          | 1,140          | 1,093          |
| Loan Amount             | \$9,048,410     | \$9,746,492     | \$8,449,537    | \$7,139,280    | \$6,033,616    | \$4,950,601    |

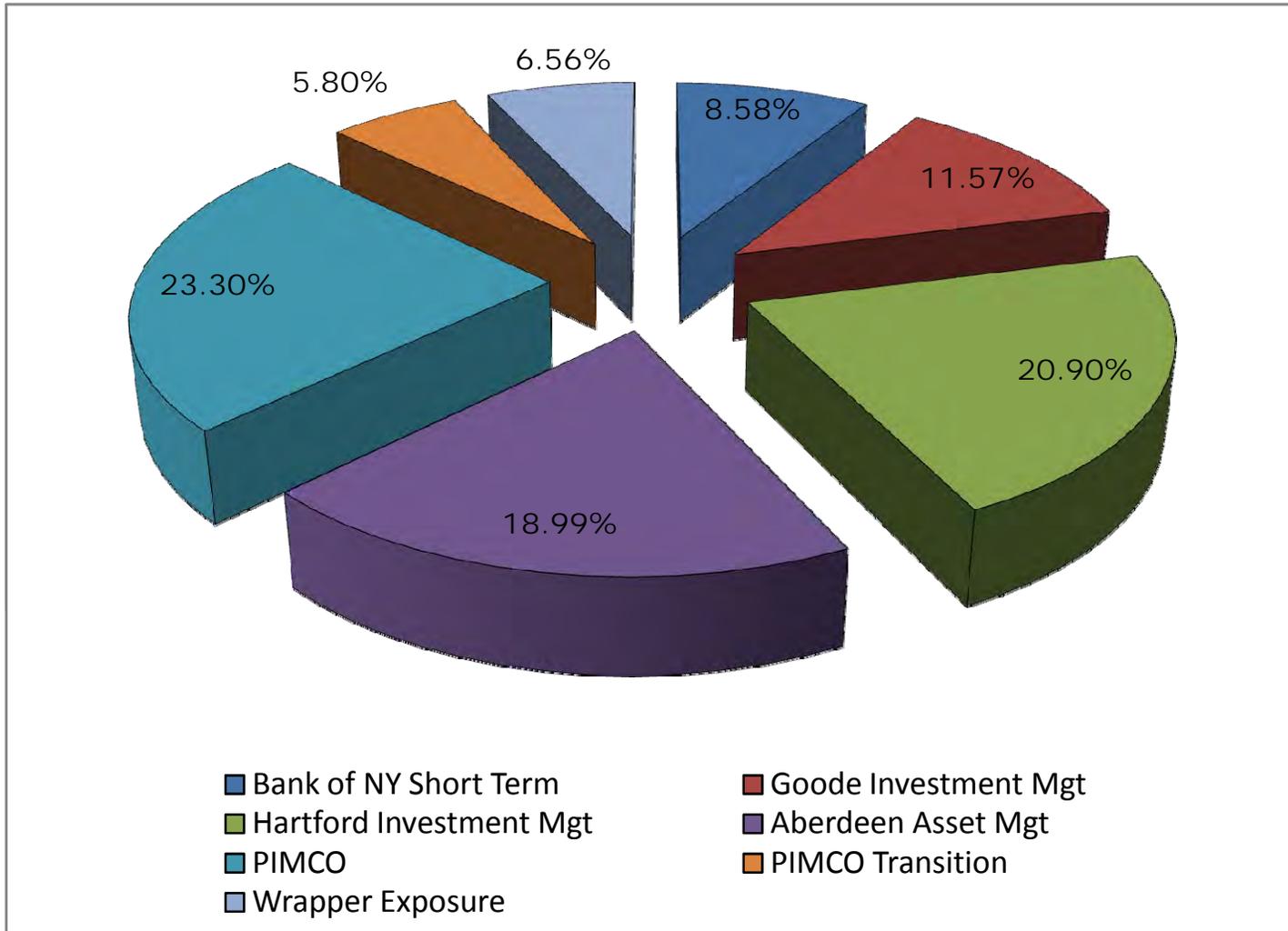
**403(b) PLAN SUMMARY**

|                        | <u>2008</u>    | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   | <u>2004</u>   | <u>2003</u>   |
|------------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Participant Accounts   | 980            | 926           | 938           | 982           | 1,023         | 1,242         |
| Deferring Participants | 429            | 368           | 348           | 374           | 379           | 446           |
| Total Net Assets       | \$49,647,286   | \$74,397,765  | \$74,571,307  | \$69,336,969  | \$67,323,565  | \$62,962,338  |
| Contributions          | \$3,041,867    | \$2,791,581   | \$2,771,994   | \$2,895,313   | \$2,637,312   | \$2,661,956   |
| Investment Return      | (\$23,503,047) | \$4,056,195   | \$7,826,156   | \$4,027,072   | \$6,237,768   | \$12,292,184  |
| Withdrawals            | (\$4,274,796)  | (\$6,973,190) | (\$5,286,574) | (\$4,848,153) | (\$4,416,482) | (\$3,513,266) |
| Mutual Fund            |                |               |               |               |               |               |
| Reimbursements         | \$122,270      | \$167,454     | \$126,326     | \$147,405     | \$122,028     | \$83,478      |
| Administration Fees*   | (\$136,773)    | (\$215,582)   | (\$203,564)   | (\$208,233)   | (\$219,399)   | (\$199,478)   |
| Number of Loans        | 5              | 7             | 6             | 8             | 9             | 8             |
| Loan Amount            | \$127,838      | \$156,384     | \$177,425     | \$153,475     | \$182,283     | \$228,243     |

**401(a) PLAN SUMMARY**

|                        | <u>2008</u>    | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   | <u>2004</u>   | <u>2003</u>   |
|------------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Participant Accounts   | 44,705         | 44,119        | 42,596        | 41,746        | 37,452        | 38,525        |
| Deferring Participants | —              | —             | —             | —             | —             | —             |
| Total Net Assets       | \$113,353,821  | \$143,044,977 | \$121,547,495 | \$95,884,720  | \$81,823,548  | \$76,781,081  |
| Contributions          | \$15,979,591   | \$20,722,388  | \$17,986,400  | \$11,891,617  | \$19,092      | \$2,486,316   |
| Investment Return      | (\$45,562,513) | \$5,724,281   | \$11,473,276  | \$5,114,213   | \$7,403,571   | \$14,743,893  |
| Withdrawals            | (\$4,860,035)  | (\$4,754,283) | (\$3,643,693) | (\$2,809,622) | (\$2,206,489) | (\$1,786,887) |
| Mutual Fund            |                |               |               |               |               |               |
| Reimbursements         | \$159,786      | \$175,209     | \$135,911     | \$118,206     | \$88,561      | \$172,182     |
| Administration Fees*   | (\$268,020)    | (\$370,113)   | (\$289,206)   | (\$253,155)   | (\$262,268)   | (\$229,989)   |
| Number of Loans        | n/a            | n/a           | n/a           | n/a           | n/a           | n/a           |
| Loan Amount            | n/a            | n/a           | n/a           | n/a           | n/a           | n/a           |

## STABLE VALUE MANAGER DIVERSIFICATION



# Maryland Supplemental Retirement Plans

## Other Supplementary Schedules

Maryland Supplemental Retirement Plan  
BOARD INCOME & EXPENDITURES

|                                     | 2008         | 2007         | 2006         | 2005         | 2004         | 2003         | 2002         | 2001         | 2000         | 1999         |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total Revenues</b>               | \$ 1,253,058 | \$ 1,158,167 | \$ 1,394,092 | \$ 1,122,892 | \$ 1,957,150 | \$ 2,081,848 | \$ 1,432,306 | \$ 1,140,436 | \$ 883,440   | \$ 1,081,848 |
| <b>Expenditures</b>                 |              |              |              |              |              |              |              |              |              |              |
| Salaries, Wages and Fringe Benefits | \$ 976,558   | \$ 932,777   | \$ 914,122   | \$ 954,275   | \$ 1,026,554 | \$ 1,079,734 | \$ 1,106,109 | \$ 1,025,819 | \$ 939,862   | \$ 685,707   |
| Technical and Special fees          | \$ 1,797     | \$ 1,529     | \$ 8,616     | \$ 1,179     | \$ 12,386    | \$ 7,945     | \$ 12,079    | \$ 13,553    | \$ (2,014)   | \$ 10,833    |
| Communications                      | \$ 31,368    | \$ 19,820    | \$ 29,931    | \$ 8,851     | \$ 10,131    | \$ 18,698    | \$ 12,759    | \$ 40,029    | \$ 31,003    | \$ 13,622    |
| Travel (In-State and Out-of-State)  | \$ 16,753    | \$ 17,871    | \$ 11,822    | \$ 21,955    | \$ 24,229    | \$ 25,737    | \$ 26,884    | \$ 41,543    | \$ 41,344    | \$ 39,058    |
| Contractual Services                | \$ 228,383   | \$ 230,827   | \$ 248,172   | \$ 217,410   | \$ 229,405   | \$ 221,068   | \$ 240,977   | \$ 216,680   | \$ 249,162   | \$ 328,731   |
| Supplies and Materials              | \$ 10,032    | \$ 8,583     | \$ 14,545    | \$ 13,365    | \$ 13,878    | \$ 14,594    | \$ 27,646    | \$ 11,531    | \$ 42,019    | \$ 20,638    |
| Equipment and Furnishings           | \$ 9,432     | \$ 2,716     | \$ 14,393    | \$ -         | \$ 2,962     | \$ 3,794     | \$ 200       | \$ 768       | \$ 45,465    | \$ 5,392     |
| Fixed Charges                       | \$ 109,436   | \$ 107,575   | \$ 105,497   | \$ 103,646   | \$ 101,016   | \$ 103,327   | \$ 97,192    | \$ 91,761    | \$ 86,066    | \$ 80,907    |
| <b>Total Expenditures</b>           | \$ 1,383,759 | \$ 1,321,698 | \$ 1,347,098 | \$ 1,320,681 | \$ 1,420,561 | \$ 1,474,897 | \$ 1,523,846 | \$ 1,441,684 | \$ 1,432,907 | \$ 1,184,888 |
| <b>Revenue Less Expenditures</b>    | \$ (130,701) | \$ (163,531) | \$ 46,994    | \$ (197,789) | \$ 536,589   | \$ 606,951   | \$ (91,540)  | \$ (301,248) | \$ (549,467) | \$ (103,040) |
| Adjustment (timing differences)     | \$ -         | \$ -         | \$ -         | \$ 11,678    | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| <b>Reserve Balance</b>              | \$ 546,152   | \$ 673,938   | \$ 887,982   | \$ 701,871   | \$ 887,759   | \$ -         | \$ (23,399)  | \$ (88,614)  | \$ 139,435   | \$ 566,295   |

# ***GLOSSARY***

## **Rates of Returns**

**Rates of Returns.** The rates of returns are net of the fund's annual operating expenses. They are before the deduction of plan administration asset fees.

## **Betas**

**Five-Year Beta.** The beta coefficient is a statistical measure of a stocks relative volatility (or risk). For comparative purposes, the Fund's beta are measured relative to the S&P 500 Index, a measure of broad market activity. The Standard & Poors 500 Index (S&P 500) has a beta coefficient of 1.00. A stock with a higher beta is more volatile than the S&P 500. A stock with a lower beta is less volatile than the S&P 500.

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## **Indices**

**91-Day Treasury Bill.** A negotiable debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of three months. Exempt from state and local taxes.

**50% S&P/50% Lehman Bros. Aggregate Bond.** This is the 50% S&P 500 and 50% Lehman Brothers Aggregate Bond Index. The Standard & Poor's 500 Index is a broad-based measurement of stock market conditions, as 70% of U.S. equity is tracked by the S&P 500. The index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighed index, with each stock's weight proportionate to its market value. The Lehman Brothers Aggregate Bond Index is a mix of government, corporate, mortgage-backed, asset-backed, and Yankee bonds.

**MSCI EAFE Index.** The Morgan Stanley Capital International (MSCI) Europe, Australia, and the Far East (EAFE) Index is an international equity index. It consists of 1,030 securities from the following 20 countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

**Russell 2000 Index.** This index is a small-capitalization index that consists of the 2,000 smallest stocks in the Russell 3000 Index, representing 10% of the total U.S. equity market.

**60% S&P/40% Lehman Bros. Aggregate Bond.** This is the 60% S&P 500 and 40% Lehman Brothers Aggregate Bond Index. The Standard & Poor's 500 Index is a broad-based measurement of stock market conditions, as 70% of U.S. equity is tracked by the S&P 500. The index consists of 500 stocks chosen for market size, liquidity, and industry group presentation. It is a market weighted index, with each stock's weight proportionate to its market size. The Lehman Brothers Aggregate Bond Index is a mix of government, corporate, mortgage-backed, asset-backed, and Yankee bonds.

## ***GLOSSARY(continued)***

**Standard & Poor's 500 Index.** This index is a broad-based measurement of stock market conditions, as 70% of U.S. equity is tracked by the S&P 500. The index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighed index, with each stock's weight proportionate to its market value.

**S&P BARRA Growth Index and S&P BARRA Value Index.** These indices take the stocks in the S&P 500 and portion them into equal halves based on their price-to-book ratios.

**Lehman Bros. Intermediate Gov't Bond Index.** Includes Government Index Issues with a time to maturity between 1 and 10 years.

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### **Medians**

**Fixed Income – Short Term. Median.** This universe includes funds defined by Morningstar as Short-Term Bond. Short-Term Bond funds have an average duration of more than one but less than 3.5 years or an average effective maturity of more than one but less than four years.

**Foreign Equity Non-U.S. Median.** This universe includes funds defined by Morningstar as Foreign Stock funds which have no more than 10% of stocks invested in the United States. The median return represents the mid point of this universe.

**Large Cap Blend Median.** This universe includes funds defined by Morningstar as Large Blend. Large Blend funds invest in a combination of Large Cap Growth and Large Cap Value stocks. The return represents the mid point of this universe. Market caps greater than \$10 billion are considered large cap.

**Managed Balanced Median.** This universe includes funds defined by Morningstar as Balanced, which includes funds with stock holdings of greater than 20% but less than 70% of the portfolio. The return represents the mid-point of this universe.

**Mid Cap Growth Median.** This universe includes funds defined by Morningstar as Mid-Cap Growth. Mid-Cap Growth funds primarily invest in stocks of mid-sized companies which are growing at faster than average rates. The return represents the mid point of this universe. Market caps greater than or equal to \$2 billion but less than or equal to \$10 billion are considered mid-cap funds.

## ***GLOSSARY(continued)***

**Small Cap Core Median.** This universe includes funds defined by Morningstar as Small Blend. Small Blend funds invest in a combination of Small-Cap Growth and Small-Cap Value stocks. The return represents the mid point of this universe. All funds with market caps less than \$2 billion are considered small-cap funds.

# ***PARTICIPANT DATA DEFINITIONS***

**Participants.** Those who have an account value, including those who are receiving systematic withdrawals and those who have recently enrolled in the plans and are awaiting their first deferral.

**Deferring Participants.** Those participating employees who made a contribution to the plan by payroll deduction at the end of the reporting period.

**Net New Enrollments.** The net change of State employee participants from year to year. New enrollments and restarted contributors are reduced by retirement and transfer withdrawals, death claims and other full distributions.

**Annuitants.** Participants who are receiving withdrawals from purchased annuity contracts.

**Systematic Payouts.** Participants who are receiving withdrawals from the plans with remaining balances invested in the plan(s).

**Average Deferrals per Participant.** Calculated by dividing the dollar value of "TOTAL Deferrals" in all plans combined by the number of "TOTAL Deferring Participants" at year-end.

**Average Combined Plan Assets by Participants.** Calculated by dividing the dollar value of Plan Assets in all plans by the number of "TOTAL Participants" in all plans.

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<sup>1</sup> Source: Nationwide Retirement Solutions, Inc. Administrator Report

# Maryland Supplemental Retirement Plan Comparison Chart CY2009

| Questions:   | 457(b) Deferred Compensation Plan   | 401(k) Savings & Investment Plan   | 403(b) Annuity Plan                     |
|--|---|--|---|
| Who is eligible to participate?  | All State employees   |  | State educational institution employees |
| Who is eligible for the State match?   | All State employees in the Employees Alternate Contributory Pension Selection Plan  |  |   |
| Are payroll deductions pre-tax?  | Yes (but not for FICA)  |  |   |
| What is the minimum I may contribute?  | \$5 per biweekly pay  |  |   |
| What is the maximum contribution?  | \$16,500 (may be adjusted in future years for inflation) effective 1/1/09   |  |   |
| May I "catch-up" in a later year?*   | Age 50 or older \$5,500 bonus deferral or special 457 Catch-up  | Age 50 or older bonus \$5,500 deferral                                       |   |
| How often may I change my contribution amount?   | Unlimited.  |  |   |
| What are the cost to participate?*   | 0.19% of your account value, no more than \$2,000 effective 1/1/08.<br>(Note that many mutual funds pay reimbursements for account services, see our "Mutual Fund Savings" program material and your account statement for more information.) |  |   |
| What are the current investment options?   | Fixed- Investment Contract Pool   | Variable Mutual Funds  | Variable Mutual Funds                   |
| May I roll over money from other retirement accounts into my Maryland Supplemental Retirement account?   | Yes- from a 457, 401(k), 403(b)/thrift savings plan or traditional IRA into your supplemental retirement account  |  |   |
| May I roll over my supplemental retirement accounts to another type of retirement account, like an IRA?  | Yes- to a 457, 403(b), 401(k) or IRA, upon leaving State service or when eligible distribution is allowed   |  |   |
| May I withdraw money from my account while employed?   | Yes, but only if you are 70 ½ or older, or qualify for an unforeseen emergency withdrawal   | Yes, but only if you are 59 ½ or older, or qualify for a hardship withdrawal |   |
| When may I begin withdrawals from my account without penalty?***   | When you leave State employment, regardless of age  | If you leave State employment at age 55 or older, or at age 59 ½             |   |
| May I change my withdrawal options once I start my payout?   | Yes   |  |   |
| Is there a loan provision and a hardship/emergency provision?  | Yes/Yes   |  |   |
| <b>401(a) Match Plan:</b> The withdrawal rules are the same for the 401(a) and 401(k) plans except that in the 401(a) plan, distributions are not permitted until separation from State service. |   |  |   |

\*Contact a Team MSRP representative for details and limitations, see reverse for an illustration

\*\*In addition, each of the mutual funds offered by the plan has fund expenses that will vary based upon the mutual fund selected. Also, some mutual funds may impose a short-term trade fee. Please read the underlying prospectuses carefully.

\*\*\*Withdrawals are taxed as ordinary income. The IRS early withdrawal penalty is 10% for 401(k), 403(b) and the 401(a) Match plan.