



MSRP E-NEWS

A newsletter from the Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans

Volume 2 Number 1
April 2006

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\$600 Match for State Employees - Share this Exciting News with Your Fellow State Workers

Starting this July, be ready for the return of the \$600 Match--thanks to Governor Robert L. Ehrlich, Jr. for including the full Match in the FY2007 State budget and thanks to the State legislature for approving this level of benefit. The state of Maryland offers most State workers \$600 matching contributions to the Maryland Supplemental Retirement Plans (457 Deferred Compensation, 403 (b) Tax Deferred Annuity Plan, and the 401(k) Savings and Investment Plans).

Most state employees are eligible for the Match--under current law employees must be a state employee and a member of the State Employees "Modified" Pension System (employees 2% system). You are an eligible member of the employees modified pension system when the following abbreviation "ST EMP PEN-MOD" shows under the deductions on your paycheck stub. Full-time, part-time and contractual employees may participate in the supplemental retirement plans but only state employees in the Employees Modified Pension System - will receive the Match.

State employees must also make contributions to a supplemental retirement account to get the Match. Maryland sponsors three retirement plans statewide through the Maryland Supplemental Retirement Plans, MSRP. State employees who work in higher education and are eligible for the Match may also select and get the Match in supplemental retirement accounts from alternate providers. For information, please contact your employee benefits office or your supplemental retirement plan provider.

The lowest contribution permitted to the MSRP Plans is \$5 a bi-weekly pay, which would be matched dollar-for-dollar for a Match total of only \$130. To get the full \$600 Match for FY 2007, workers need to contribute about \$24 per bi-weekly pay or more, for all 26 pay periods beginning with the first payday in July. The match contributions are automatically contributed to your 401(a) account in which you are 100% vested. If you are not currently deferring or not deferring enough for the full \$600 Match, please call Nationwide Retirement Solutions at 1-877-628-2499 or go on-line to www.MarylandDC.com.



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Two Funds Added to Plans

The Board of Trustees announces that as of April 19, 2006, the Van Kampen Mid Cap Growth Fund A and the MainStay Small Cap Opportunity Fund will be available as investment options in all the supplemental retirement plans. The funds were selected for addition as part of an ongoing effort by the board to provide participants with a range of investments in each market cap category (large, mid and small size companies).

The Van Kampen Mid Cap Growth Fund A invests in growth companies with a market cap between \$4.2 billion and \$12.4 billion. As of January 31, 2006 the fund held 59 stocks and the leading market sectors were: Hotels, Restaurants & Leisure; Commercial Services & Supplies; Oil, Gas & Consumable Fuels; and Wireless Telecommunication Services. "If a good company has a strong competitive advantage, we're interested. The first question we ask about a stock isn't about its growth rate," says Dennis Lynch co-manager of the fund. "It's about whether it has a strong competitive position that lets it take advantage of a strong growth rate."

The MainStay Small Cap Opportunity Fund seeks out small (under \$1 billion market cap) growing companies with above average potential for capital growth, with a particular eye towards undervalued companies showing characteristics of improvement. As of December 31, 2005 it held 179 stocks and the leading market sectors were Financials, Industrials, Consumer Discretionary, Utilities and Energy. "What makes the fund unique is the process used to select stocks is quantitative (rather than subjective) and disciplined. The managers have been in place since 1988. Its style has remained consistent over time due to this quantitative and disciplined approach, so your participants know what they are getting has stayed true over time", explained Doug Amacher, Director of MainStay Investments.

Additional information about both of the new funds, including historical performance, can be found on page 8 of your statement.

Market Cap is a measure of the size of a company based on the number of shares outstanding times the share price.



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Legg Mason Value Trust Continues Streak

Only Fund To Outperform the S&P 500 for Each of the Last 15 Calendar Years!

The Legg Mason Value Trust, a mutual fund offered by MSRP, has once again outperformed the S&P 500 index for the calendar year 2005. In fact, it is the only fund to have beaten the S&P 500 for each of the last 15 calendar years and according to Lipper, Inc. is the only fund to beat the S&P for *any* 15 straight calendar years.

This streak is even more remarkable as it occurred over a 15-year period that saw a great variety of market conditions—from post-recessionary to tech-bubble and bust to post 9/11 and Katrina spiral and now into economic recovery. Yet, every year during this cycle the fund surpassed the returns of the S&P 500.

The credit for this incredible feat lay with the fund manager, Bill Miller. Mr. Miller has managed the funds since its inception and over the years has received numerous accolades for his management record and distinct style, which focuses on a detailed understanding of businesses and their intrinsic value.

Raymond A. “Chip” Mason, chairman and chief executive officer of Legg Mason, Inc., stated, “In what has been a historic year for Legg Mason, Bill Miller has added his own piece of history at year end. He and his team have once again demonstrated performance that underscores the comprehensive valuation discipline they employ. We are proud of Bill’s team, and are delighted that Value Trust’s investors have consistently been served by one of today’s most admired professionals”.

Bill Miller said “We are pleased we were able to add value for our clients and shareholders by outperforming the S&P 500. We are committed to producing returns that are competitive with the best in the business, making the best investment decisions we can by using a research-driven process that focuses on long-term business value”.

Average Annual Total Returns as of 12/31/05

	One Year	Three Years	Five Years	Ten Years
Legg Mason Value Trust	6.36%	20.37%	5.53%	16.34%
*S&P 500 Index	4.90%	14.39%	0.54%	9.07%

Source: MSRP Investment Performance Report-October 1, 2005-December 31, 2005

NOTE: The S&P 500 is a market capitalization-weighted index, composed of 500 widely held common stocks, including reinvestment of dividends that is generally considered representative of the U.S. stock market. *The S&P rates of return above are the “benchmark” rates to which funds in similar investment categories should strive to meet or exceed.



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Enrolling is Easy

Have you been procrastinating when it comes to retirement planning? If you can spare 5 minutes, you can enroll in Maryland's supplemental retirement plan. If you have internet access visit www.marylanddc.com. Click the tab (employee). Click the tab (How do I enroll). Follow the directions as stated. The website provides you with information on the benefits of the plans and helps you determine how much to invest and where to invest. For you complete your personal information, you will need to know your agency code – it is shown on the top of your pay stub. You can name your beneficiary online, then Nationwide asks you to confirm it by mailing back a preprinted designation form. Review your summary and submit. Time- four minutes, 30 seconds; 30 seconds to spare.

If you would like to speak to a representative, there are other enrollment options. You can enroll by phone, call Nationwide Customer Service at 1-800-545-4730 or you can meet with someone in person, call 410-252-7201 to request an appointment with one of Nationwide's Local Representatives. Take a step in the right direction. Enroll today to begin saving for your future.



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Investment Style – What Does It Mean?

When you look at the information MSRP provides about the stock mutual funds available in our plans, you see the labels “Growth,” “Value”, and “Blend.” Ever wonder what those terms mean? A growth fund is generally looking for companies that are growing their earnings much faster than the rest of the market over an extended period of time. These companies are often leaders in their field, and usually the share price compared to earnings (the P/E ratio) is higher than average due to higher anticipated future earnings.

A value fund is generally looking for undervalued companies – companies whose share price doesn’t reflect the true value of the company when things like assets, debt and profitability are examined. These companies usually have a P/E ratio that is lower than average and in the large cap sector often include dividend-producing companies. Companies that have experienced a sudden fall in share price creating a value buying opportunity may also be included in value funds. In either case, the fund is assuming that at some point the average investor will recognize the true value of the company, and the share price will go up as a result.

A blend fund is simply using a combination of these two investment styles in selecting stocks. The different strategies take turns in terms of leading performance. From 2000 until the middle of 2005 value was in the lead, but recently growth seems to be pulling ahead. This is yet another reason for making sure you are well diversified.

So where do “index funds” fit in? An index fund does not use an active stock picking strategy. Instead it tries to recreate the performance of an index, which is a weighted average of all the stocks in a given category. While an actively managed fund (like those described above) is trying to pick stocks that they believe will perform better than average, a passively managed index fund is just trying to be average.

So why settle for being average? The fact is most actively managed funds do not perform better than average on a consistent yearly basis (although many do perform better over a longer period of time). Index funds in general also have lower cost due to lower management expenses. Funds in the MSRP Plans:

- Growth – Growth Fund of America, Van Kampen Mid Cap Growth Fund and Delaware Trend Fund
- Value – Washington Mutual Investors Fund, Lord Abbett Mid Cap Value Fund and MainStay Small Cap Opportunity Fund
- The remaining stock mutual funds in our plan are blends.
- Index – Vanguard Institutional Index Fund and Dreyfus Mid Cap Index Fund



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Are you Ready to Begin MSRP Plan Payout?

Are you ready to begin taking distributions from your Maryland Supplemental Retirement Plans account? If you are considering beginning withdrawals but you're not sure its in your best long term interest, call either Barry Zellers or Joe Bouffard, Nationwide's Retirement Income Management Representatives at 1-800-966-6355 for an appointment to review your account and your options. If you are certain you are ready to begin, here's what you need to do. Please remember you need to be separated from service to begin 457 distributions and 55 or older and separated or 59 1/2 to begin distributions from 401k and 403b accounts.

1. Call Nationwide at 1-800-545-4730 and request a Payout Request Packet or download it from www.marylanddc.com through tab Plan Details and Forms- Payout Request Packet.
2. Complete the form. Be certain to have Section 2- Authorization signed by your personnel representative if you are in the 457 plan or if you are younger than 59 1/2. You may want to complete this section prior to leaving state service even if you are not taking distributions to expedite the process when you will begin distributions. The payout options are explained on the back of the form. Remember to initial the box in Section 5- Authorization waiving the 30-day notice period regarding taxing of plan payments or your payments will be delayed for 30 days.
3. Complete the Withholding Exemption Certificate or W-4P Withholding Certificate for Pension Annuity Payments if necessary. If you select a lump sum or a systematic withdrawal lasting less than 10 years, 20% of the taxable portion of the distribution will be withheld for federal income taxes, 7.75% will be withheld for state income taxes.
4. Return the form to Nationwide in the pre-addressed envelope or to Nationwide Retirement Solutions
P.O. Box 182797
Columbus, Ohio 43218-2797

That's it. You can choose to have your distributions sent to you or directly deposited into your checking or savings account. Distributions typically begin within 7-10 business days of Nationwide's receipt of the Payout Request Form for participants who have already received their state last paycheck. Please remember you can change your distribution at anytime by completing another Payout Request Form.



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Americans' Savings Rate Hits 70 Year Low

Did you spend less than you earned last year after taxes? It sounds like an odd question, but if your answer is yes, you did better than the average American.

For only the third time ever, the savings rate for 2005 reached into negative territory, a negative 0.5%, according to the U.S. Department of Commerce. This means that not only did Americans spend all their income after taxes, but they also dipped into their savings to increase spending.

The only other years with a negative savings rate were two years during the Great Depression. Here are some tips that may help you do better this year:

- Develop a budget and reduce unnecessary expenses, so you will have more money available to save.
- Increase your deferrals to your MSRP plans.
- Establish a savings plan for other non-retirement goals. The most successful way to do this is through direct deposit or automatic deduction from your checking account.
- Pay off your credit card balances as quickly as possible to reduce interest charges.
- If you continue to use a credit card, pay off all charges each month.



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Learn the Lingo!

Ever heard investment jargon like “bear” and “bull” market and want to know what it means? Look no further than our newsletter for definitions of investment terminology. Learning these words and phrases will make you sound like an investment expert in no time!

Bear and Bull Markets:

When stocks trend downward for a long period, it's a ""bear"" market. Conversely, when stock prices have risen steadily over several months, experts call it a ""bull"" market. These terms were selected based on the way the two animals attack. When a bull rushes forward, he holds his head low and then gores upward with his horns. A bear, on the other hand, strikes downward with his paws.

Mutual Fund

Professionally managed pools of investments, which provide an individual investor with an opportunity to invest in the stock market or other areas without the responsibility of making specific investments. Mutual funds make saving and investing simple, accessible, and affordable. The advantages of mutual funds include professional management, diversification, variety, liquidity, affordability, convenience, and ease of recordkeeping-as well as strict government regulation and full disclosure.

Asset Allocation

A strategy for balancing risk within a portfolio. A predetermined percentage of investment dollars is placed in financial products that preserve principal (such as our Investment Contract Pool or Bond Funds). The remaining investment dollars are placed in financial products that seek growth (equities/stocks). The goal is to achieve for the portfolio the highest expected return without taking on more risk than the investor wants to accept.

Our website www.MarylandDC.com , will allow you to review your current asset allocation, makes changes to your allocation as well as help you assess your risk tolerance.

Dollar-Cost Averaging

An effective mutual fund investment strategy comprised of regular, usually monthly, deposits. This strategy allows you to average out the acquisition costs of shares in your fund, due to regular, fluctuating share prices. The advantages of this strategy are that it requires no effort to ""time"" the market (such efforts usually fail), and it automatically causes you to buy more shares when they are cheap and fewer when they are expensive.



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MSRP Investment Definitions Explained

NASDAQ

An acronym for National Association of Securities Dealers Automated Quotations. An information network that provides brokers and dealers with price quotations for trading on the over-the-counter-market

Net asset value

The actual true value of each share of a mutual fund. This is calculated by dividing the total value of the fund by the number of shares the fund currently has outstanding

The actual true value of each share of a mutual fund. This is calculated by dividing the total value of the fund by the number of shares the fund currently has outstanding. Net asset value, or "NAV," of an [investment company](#) is the company's total assets minus its total liabilities. For example, if an investment company has securities and other assets worth \$100 million and has liabilities of \$10 million, the investment company's NAV will be \$90 million. Because an investment company's assets and liabilities change daily, NAV will also change daily. NAV might be \$90 million one day, \$100 million the next, and \$80 million the day after.

NAVs are helpful in keeping an eye on your mutual fund's price movement, but NAVs are **not** the best way to keep track of performance. The reason for this is [mutual fund distributions](#). Mutual funds are forced by law to distribute at least 90% of its' realized capital gains and dividend income each year. When a fund pays out this distribution, the NAV drops by the amount paid. This is important because an investor may become frightened when they see their fund's NAV drop by \$3 even though **they haven't lost any money** (the \$3 was paid out to the shareholder).

No-load funds

Mutual funds that can be purchased, sold, and owned without any commissions. The only charges involved are management fees. Shares are sold at the net asset value price, and no sales-person is paid to sell the shares.

All current MSRP funds are no-load mutual funds. Our fees are extremely low at .28% (\$2.80) per \$1000 in account not to exceed \$1900.00 per year.

Compound interest

Interest paid on interest. This occurs when interest is paid on an investment at periodic intervals, which is then added to the amount of the investment. As a result, future interest payments are based on the original investment plus an increasing amount of interest added to it

The most powerful force in the universe is compound interest-Albert Einstein

Mutual funds

Professionally managed pools of investments which provide an individual investor with an opportunity to invest in the stock market or other areas without the responsibility of making specific investments. Mutual funds make saving and investing simple, accessible, and affordable. The advantages of mutual funds include professional management, diversification, variety, liquidity, affordability, convenience, and ease of recordkeeping-as well as strict government regulation and full disclosure

Growth fund

A mutual fund whose aim is to achieve capital appreciation by investing in growth stocks. They focus on companies that are experiencing significant earnings or revenue growth, rather than companies that pay out dividends. The hope is that these rapidly growing companies will continue to increase in value, thereby allowing the fund to reap the benefits of large capital gains. In general, growth funds are more volatile than other types of funds, rising more than other funds in bull markets and falling more in bear markets.

Institutional fund

A mutual fund that targets pension funds, endowments, and other high net worth entities and individuals. Institutional funds usually have lower operating costs and higher minimum investments than retail funds. Often their main objective is to reduce risk, so they invest in hundreds of different securities, which makes them among the most diversified funds available. They also do not tend to trade securities very often, so they are able to keep operating costs to a minimum

Risk

The chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. It is usually measured using the historical returns or average returns for a specific investment.

Top 10 Holdings

This section lists a mutual fund's top holdings as a percentage of total assets. The top 10 holdings of a mutual fund can give you some idea of where a fund manager is investing your money. Mutual funds have all kinds of stated objectives, and even have names that imply a certain investment style. But funds sometimes are not what they seem. Check the fund's holdings to make sure you understand what you're buying.

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MSRP Retirement News is published by the Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans, William Donald Schaefer Tower, Suite 200, 6 St. Paul St., Baltimore, Maryland 21202-1608. (phone) 410-767-8740 or 1-800-543-5605 (fax) 410-659-0349.

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