MSRP E-NEWS
A newsletter from the Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans

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MSRP Investment Option Change
Welcome to Our Newest Board Member
MSRP Field Department Making a Difference
Increasing Your Retirement Benefit
Mutual Fund Reimbursement Program
Risk Overview

MSRP Investment Option Change

One fund added, one fund closed

The MSRP Board of Trustees – using the services of investment consultant Segal Advisors – has voted to add one fund and eliminate another in its continued efforts to offer quality fund options to participants.

On August 24, 2006, the Fidelity Growth & Income Fund will be eliminated from the plan. If you have contributions directed to or assets in this fund, you should re-direct or move that money to a different investment option by August 24, or they will be moved to the Neuberger Berman Partners Fund.

On July 18, 2006, the Neuberger Berman Partners Fund will be open for new contributions and transfers from other options within the 457, 401(k), 401(a) and 403(b) plans.

Neuberger Berman Partners Fund— Institutional Share Class (Data as of March 31, 2006)	
Total Net Assets under Management	$3,600,000,000
Investment Objective	The fund seeks growth of capital. There is no guarantee that any fund's investment objective(s) will be achieved. Before investing, carefully consider the fund's investment objectives, risks, and charges and expenses. Some mutual funds may impose a short-term trade fee. Read the prospectus carefully.
Investment Style	Large Cap Core
Ticker Symbol	NBPIX
Website	www.NeubergerBerman.com
Asset Allocation	Domestic Equity: 98.6% Foreign Equity: 0.0% Cash/Equivalents: 1.4%
Average Annual Returns — Due to the inception date of 05.01.2006, history is not available for the Institutional Share Class. Returns history reflects the Investors Share Class, net of fees.	1-Year: 21.41% 3-Year: 26.88% 5-Year: 9.36% 10-Year: 9.78%
Mutual Fund Savings program	The fund will participate. See your quarterly statement.

Call 1-800-545-4730 or visit MarylandDC.com to change your investments and review the Neuberger Berman Partners Fund profile.

*** Average Return Numbers Were Corrected On July 28, 2006**

Welcome to Our Newest Board Member

On March 7, 2006 Governor Ehrlich appointed Deputy Comptroller Linda L. Tanton, Esq. to the MSRP Board of Trustees. Ms. Tanton was appointed to fill the vacancy created by the retirement of Stephen Cordi, the previous Deputy Comptroller, who served on the Board of Trustees for 12 years.

Ms. Tanton has been with the Comptroller's Office since 1977, and served as Director of the Compliance Division from 1994-2005. She is a graduate of Wake Forest University, earned her law degree from the University of Baltimore, and received her L.L.M. in Tax Law from Georgetown University. She was admitted to the Maryland Bar in 1975.

"I feel privileged and excited about this new opportunity to serve state employees. This is an exciting time to come onto the Board with new projects developing. I look forward to serving and learning more about the plans," said Ms. Tanton. As a participant in the plan prior to her appointment she said, "I thought it was a wonderful way for state employees to enhance their lifestyles in retirement, but like most employees, I underutilized it – I just didn't contribute enough until recent years. My husband contributed heavily to his 401(k) plan with his employer, and it will enable us to have a comfortable retirement when the time comes." Ms. Tanton shared her initial impressions as a new Board member: "I think my fellow Board members are very dedicated and knowledgeable and work hard to protect state employees and continually enhance the plans."

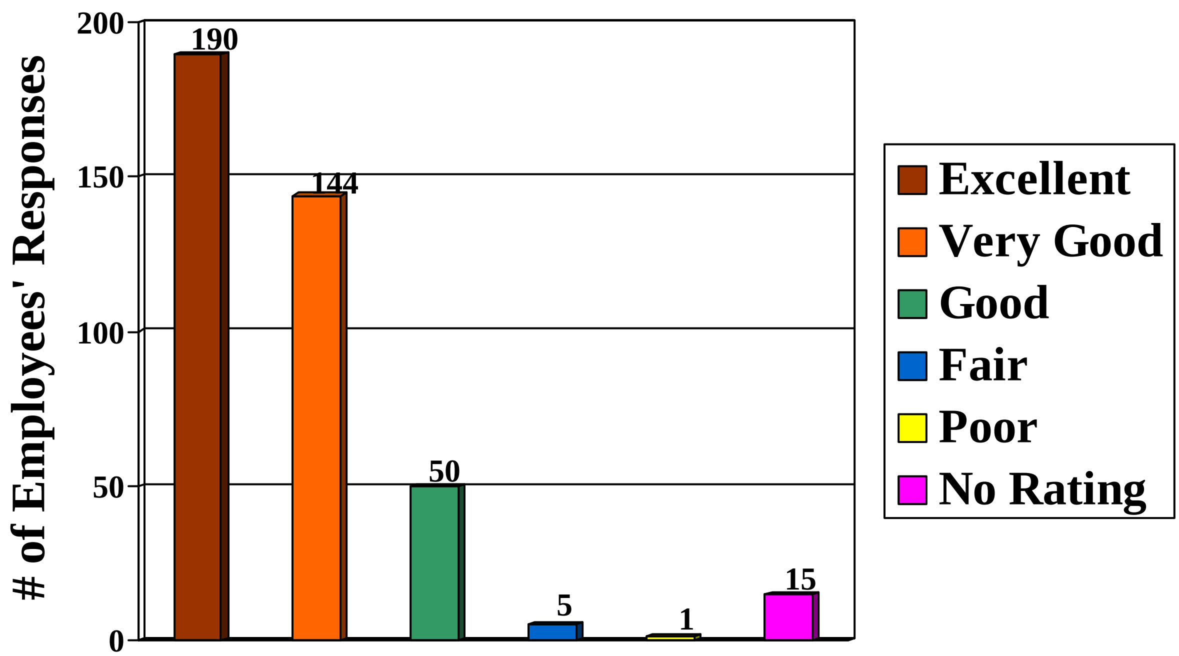
We welcome Ms. Tanton to the Board of Trustees, and all of us here at MSRP look forward to working with her.

State Employees Say
MSRP Field Department
Making a Difference through Education

94% - "A" Grade on Report Card

The Maryland Supplemental Retirement Plans are proud to report feedback received by "you" state employees who have attended an MSRP Field Department's Education Seminar. There were over 300 state workers were surveyed which revealed MSRP's education outreach is making a significant difference and helping state workers effectively save for their retirement. The survey showed **94%**, (297 of 315 total surveyed) of those attending an education seminar have either felt the importance to enroll in a retirement plan and or increase their retirement savings.

The quality of MSRP's presentations are reflected in via the Field Survey:



MSRP Field Department Educational Seminars Offered

I. Orientation Seminar

This seminar is excellent for ***new*** state employees or those not currently participating in a supplemental retirement plan. It covers the characteristics of the 457 Deferred Compensation Plan, the 403(b) Tax Deferred Annuity Plan, the 401(k) Savings & Investment Plan. It explains enrollment procedures, eligibility requirements, investment options, fee structure and distribution requirements. The length of the seminar varies from 30 minutes to one hour.

II. **Regional Financial Workshops**

This seminar grew out of the desire expressed by employees wanting to explore a more varied financial education. The workshops target specific low participating agencies and those state employees that are not participating in the plans.

The workshops provide a diverse education covering topics in the financial arena. Employees are provided with training on the basic tools of budgeting, insurance, the need for good credit, and how to use it to their benefit. The seminar also provides the participant with insight into basic investing and how to use this to better understand their supplemental retirement investment options. The subjects covered at all of the seminars are as follows:

- Budgeting Debt Management & Basic Insurance – Cooperative Extension Financial Staff
- Basics of Investing – Outside Financial Professional
- Maryland Supplemental Retirement Plans – MSRP Financial Field Representative
- Your Retirement Plans – Nationwide Retirement Solutions local representative and the Nationwide Retirement Specialist

III. Personal Finance Seminar

This seminar provides information for State employees regarding their overall financial picture. We try to provide the employees with the basic tools of budgeting & insurance, an introduction to the State pension system, financial information from an outside financial representative and an in depth discussion of our plans from our staff and the NRS enrollers. The seminar also provides the participant with an insight into basic investing and how to use this to better understand their supplemental retirement investment options. It is targeted for mid-career employees, 10-15 years of service.

The modules include:

- Budgeting, Debt Management, and Basic Insurance – Cooperative Extension Finance Staff
- Pension System – Maryland State Retirement Agency
- Basics of Investing – NRS Field Staff
- Supplemental Retirement Plans – MSRP Staff

IV. *Pre-Retirement Seminar*

The seminar covers the three supplemental retirement plans. It focuses on the choices at retirement, catch-up, and distribution options. The length of the seminar is approximately one hour. It's generally offered as part of the State Retirement Agency's full-day pre-retirement seminar, but also is offered as a stand-alone session.

V. *Informational Booth*

This is a great opportunity for employees to ask individual questions concerning their plans. A field representative sets up a table in the agency and provides information on the plans. All discussions are done on a private, confidential basis. This is a helpful option when a specific time commitment may be challenging. Time may vary.

VI. One on One Counseling

The sessions are designed to educate employees regarding the options available in the Maryland Supplements Retirement Plans, not to provide recommendations of which plan or investments options you should choose. We will discuss with you the importance of asset allocation and diversification in reducing risk, and will review you current portfolio with you. We will try to answer any questions you have about the plans, including: differences between the plans, how compounding helps you, how to read your statement, and options and requirements for withdrawing money from the plans. We will also provide you with enrollment assistance. We will focus each session on the participant's needs and concerns. Appointments are for 30 minutes

VII. Financial Seminar 101

This detailed seminar explains the principles of investing, types of investments, types of risk, estate planning and retirement plans. It assists employees with locating, evaluating and understanding financial data. The seminar is five hours, but can be offered in split sessions to accommodate scheduling. Specific topics can also be chosen. The short version is 2 ½ hours.

VIII. Exploring MSRP Investment Options

This seminar focuses on the investment options available under the Maryland supplemental retirement plans. It also covers investment objectives and asset allocation models. The length of this seminar varies from 30 to 45 minutes but also can be combined with another seminar

To Schedule a Workshop, Seminar and or Counseling Session at Your Agency

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Increasing Your Retirement Benefit

The New Alternate Contributory Pension Selection Plan and the $600 Match to your MSRP Account

The May Special Edition of the Mentor, the State Retirement Agency newsletter, highlights the newly created Alternate Contributory Pension Selection Plan. This plan was created by the 2006 General Assembly and signed into law by Governor Ehrlich on April 25, 2006. For state employees who are currently in the Employees' and Teachers' Pension System participation is automatic. The new law increases the benefit multiplier for eligible members to 1.8% for service earned on or after July 1, 1998. The multiplier remains 1.2% for service earned prior to that date. What does this mean for state employees? Increased retirement benefits.

Here's an example: An employee currently earning $50,000 who is a member of the contributory pension system with 15 years of service as of July, 2006 who plans to work 15 more years to be eligible for full retirement benefits would see his benefit increase from $20,300 to $24,900 under the new system. In this example the replacement ratio increased from 49.8% of average final compensation from 40.6% The easiest way for an employee to see how this affects him individually is for him to visit the State Retirement Agency website, www.sra.state.md.us and complete an online pension benefit estimate using the new formula.

The employee contribution rate for eligible members will increase over three years. Required contributions will increase from the current rate of 2% of salary to 3% in FY 2007, 4% in FY 2008, and 5% in FY 2009 and thereafter.

The second way the State is helping employees to save more for their retirement is by increasing the match to its defined contribution plans. The Match to the Supplemental Retirement Plans (457, 401k, and 403 b) has been increased from $400 to $600. To receive the $600 Match employees need to contribute at least $24 per pay period throughout the 2007 fiscal year. For employees who are not currently enrolled in the plan, a contribution of $27 in effect by pay period ending date August 23 is required to receive the entire $600. To sign up for a supplemental retirement account through the **Maryland Supplemental Retirement Plans**, visit **www.marylanddc.com** or call 1-877-628-2499.

Mutual Fund Reimbursement Program

The Board of Trustees for the Maryland Supplemental Retirement Plans, through successful negotiations, has developed an original and effective Reimbursement Program for their supplemental retirement plan participants. The reimbursement program is designed to refund participants for part of the fund's annual operating expenses. This benefit of the Maryland Supplemental Retirement Plans is not typically offered by other retirement savings programs.

At the board's direction, reimbursements (also known as mutual fund savings) are used to buy additional shares in the applicable funds on a regular basis. These shares are then distributed to participants' accounts on a quarterly basis. In 2005, the mutual funds in the MSRP plan refunded nearly $2.5 million back to participant accounts, over $16 million has been returned to MSRP participants since 1995, when the Mutual Fund Reimbursement Program began. State participants can look for their reimbursements on their account statement under the heading "Mutual Fund Savings".

The 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.

FREQUENTLY ASKED QUESTIONS

Who pays reimbursements?
Reimbursements are paid by the sponsors and distributors of the mutual funds used in this and similar programs -- T. Rowe Price, Fidelity, etc.

Why do they pay them?
Reimbursements are paid when a person or investor, like Nationwide Retirement Solutions, performs administrative detail that would otherwise be done by the fund sponsor. This normally includes, at a minimum, preparation of a statement, distribution of a prospectus, and general service to the investor.

Who gets them?
Mutual funds do not pay reimbursements to individual investors. They do pay reimbursements (or similar allowances) to Trustees, brokers and plan administrators. Those persons then decide whether to keep the reimbursements or distribute them.

Who gets them in Maryland?

You do. The Board restricts its administrator from receiving reimbursements from any fund, so that the administrator will have no incentive to favor one fund over another. When the Board began its reimbursement program, it decided that the refunds should be passed through directly to investors in the particular fund that pays the reimbursement. The calculation and distribution is done for any quarter if there are reimbursements available for distribution. The precise amount shows up on your statement under the heading “Mutual Fund Savings.”

How much are they?

Reimbursements are a good example of how small percentages can add up to big dollars. Since 1995 over $16 million has been collected from mutual funds and redistributed to participants. The precise amount varies from fund-to-fund; there is no standard reimbursement amount, and the precise refund is negotiated by the Board and the mutual fund. A typical reimbursement will run between 10 and 20 basis points a year (0.1-0.2%). For example, if you have $50,000 in a mutual fund that pays a 10 basis point rebate, your savings would be $50 a year. Not all funds pay reimbursements; if you want to know the most current reimbursement for a particular fund, please refer to the chart on the back of this publication.

How do reimbursements affect investment decisions?

Reimbursements are best viewed as part of your investment return/investment expense ratio. A participant in the MSRP gets an investment return, and pays his/her share of expenses necessary to earn that return. Reimbursements reduce those expenses. For some funds, reimbursements pay most of the administration expense for NRS and the Board; other options (ex.: Vanguard Index Fund; Investment Contract Pool) do not pay reimbursements but have very low expense ratios. Standard financial planning advice looks at both elements-expected return and investment expense -- in choosing one investment option over another. This is particularly true if you are estimating total expenses, or comparing expenses inside the plan to expenses for a different retirement option, such as an IRA account.

Risk Overview

The statistics listed below are components of Modern Portfolio Theory (MPT), a standard method used to assess the risk of an investment relative to a benchmark. MPT was introduce by Harry Markowitz in 1952, and he won a Nobel Prize in 1990 in Economics for his work. His theories explore how risk averse investors construct portfolios in order to optimize expected returns for a given level of risk versus the appropriate benchmark. For instance, the Standard & Poor's 500 is a benchmark commonly used to assess the risk of large cap portfolios, while the Russell 2000 is used for small cap portfolios.

- **Alpha** - Alpha is a measure of the value added by a fund's manager. It can be defined as either simple relative outperformance versus a benchmark, or as risk-adjusted performance (called Jenson's alpha). Jenson's alpha represents the difference between a portfolio's actual returns and the portfolio's expected performance given its level of risk, as measured by beta. A positive alpha indicates that a fund is performing better than expected, given its level of risk. A negative alpha indicates that a portfolio is performing worse than expected, given its level of risk. The market benchmark will always have an alpha of 0.
- **Beta** - The measure of a fund's or stock's systematic, or market, risk. It indicates the sensitivity of a portfolio relative to the market, and represents that portion of a portfolio's risk that cannot be diversified away. A beta of 0.7 means the fund's total return is likely to move up or down by 70% of the market change. Thus, it is less volatile than the market. A beta of 1.3 indicates that the total return of the portfolio is likely to move up or down 30% more than the market. The market benchmark always has a beta of 1.
- **R-Squared** - R-squared is a measure of how well two portfolios track each other. It ranges between 0.00 1.00 and reflects the percentage of a fund's movements that are explained by movements in its benchmark index. An R-squared of 1.00 means that all movements of a fund are completely explained by movements in the index , while an R-squared of 0.00 indicates no tracking at all. Thus, R-squared can be used to determine the significance of a particular beta or alpha (the higher the R-squared, the more significant alpha and beta). The market benchmark will always have an R-squared of 1.00.
- **Standard Deviation** - The standard deviation is a measure of a portfolio's total risk. It is a statistical measure of dispersion around an average return, and it indicated how widely portfolio returns have varied historically from the portfolio's average return. A higher standard deviation indicates a larger historical range of performance, implying greater risk. A lower standard deviation indicates a smaller historical range of performance, implying less risk. The market benchmark and the portfolio have unique standard deviations, and the standard deviation calculation is not dependent on the benchmark.
- **Sharpe Ratio** - Sharpe ratio measures a portfolio's return per unit of risk taken. A higher Sharpe ratio indicates that a portfolio performed better

relative to the risk it has taken. There is no standard for what is a "good" versus a "poor" Sharpe ratio. The Sharpe ratio of a portfolio is only meaningful when compared to a Sharpe ratio of another portfolio or index. It is usually calculated as the portfolio's excess return over the T-Bill, divided by the portfolio's standard deviation.

- **Tracking error**- Tracking error is the standard deviation of excess returns and it measures the volatility of a portfolio's excess returns relative to a benchmark. Tracking error indicates how widely portfolio returns have historically varied from benchmark returns. Higher tracking error indicates larger dispersion from the benchmark, implying greater risk of variation from the benchmark. Lower tracking error indicates smaller dispersion from the benchmark, implying less risk of variation from the benchmark. Portfolios with the lowest tracking error are index portfolios.